Evaluation Office
GLOBAL ENVIRONMENT FACILITY

MID-TERM REVIEW OF THE GEF RESOURCE ALLOCATION FRAMEWORK

Comparison of the GEF RAF with other Performance-Based Allocation Systems

Technical Paper #8

30 October 2008

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Not edited
Not for citation or distribution

Discussion Draft

Contents

Glossary

ACP	Africa, Caribbean and Pacific Program (European Develop. Fund)
ADB	Asian Development Bank
ADF	Asian Development Fund
AfDF	African Development Fund
ARPP	Annual Review of Portfolio Performance (World Bank)
BFI	Broad Framework Indicator
CAS	Country Assistance Strategy
CDB	Caribbean Development Bank
CIPE	Country Institutional and Policy Evaluation (IADB)[1]
CEPIA	Country Environmental Policy and Institutional Assessment
CPR	Country performance rating
CPA	Country performance assessment (ADB)
CPIA	Country policy and institutional assessment (IDA)
CSP	Country strategy and program
CSPU	Country strategy and program updates (ADB)
DEBT	Debt service ratio (variable used by the IADB, IFF and EU ACP)
DMC	Developing member country
EC	European Commission
EDF	European Development Fund
ES_CPIA	Economic and social performance criteria in the CPIA
FSO	Fund for Special Operations (IADB)
GEF	Global Environment Facility
GF	Governance factor[2]
GR	Governance rating (rating on the governance factor)
GNP	Gross national product
GNPpc	GNP per capita
GOV	"Governance" performance
HDI	Human Development Index
IADB	Inter-American Development Bank
ICP	IDA country performance rating
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFF	Intermediate Financing Facility (IADB)
MDB	Multilateral development bank
MCC	Millennium Challenge Corporation
MCA	Millennium Challenge Account
OCR	Ordinary Capital Resources
ODA	Official Development Assistance
OED	Operations Evaluation Department
OECS	Organization of Eastern Caribbean States
PBA	Performance Based Allocation
PAR	Projects at risk
PBA	Performance-based allocation
PCEF	Post-conflict enhancement factor (AfDB)

PDMC	Pacific developing member country (ADB)
PIR	Policy and institutional performance rating
POP	Population
PORT	Portfolio performance rating (also see PR)
PR	Portfolio performance rating (also see PORT)
RAF	Resource Allocation Framework
RURAL CPIA	Rural-sector policy and institutional performance (IFAD)
SCALE	Scaling factor that ensures allocation shares sum to 1.0
SDR	Special drawing rights
TRIGGER	A policy condition or action agreed with a member government that, if achieved, would lead to an increase in resources allocated to that government
VUL	Country vulnerability to shocks (economic and natural disasters)

1.0 INTRODUCTION

This paper forms part of the mid-term review of the GEF Resource Allocation Framework. It responds to the key question in the terms of reference on "How does the Resource Allocation Framework compare to the performance-based allocation systems of other multilateral agencies?"

1.1 Performance-based Allocation Systems

The African Development Bank has said that a performance-based allocation system has three purposes:

- "To increase effectiveness by directing scarce resources to member countries that demonstrate sustained efforts to achieve effective development management and poverty reduction.
- To provide for a transparent, systematic and standardized means of allocating resources annually.
- To use concessionary (resources) as a lever to influence policy in member countries and to further policy dialogue with them."[3]

These three objectives (consistent and transparent dealing with resources; good returns on invested resources by placing them where they will be effective; and incentives to influence policy and institutions in desirable directions) are typical of performance-based allocation systems, including the GEF RAF.

Incentives are offered to member countries in two ways. First the RAF favors governments that have the opportunity to produce global benefits and the capability to do so. This is demonstrated by two things: (1) the government has used concessionary finance well (measured by its portfolio performance); and (2) it has policies and institutions in place that ensure effectiveness of investments in the environment (measured by its policy and institutional performance). The incentive for the country to improve its practices is that RAF scores will improve and therefore access to grants will improve.[4]

Of course incentives will be effective only if decision makers understand, even in general terms, that their access to grants will be significantly affected by their environmental performance. This awareness may be helped by the fact that all of the multilateral development banks, the European Commission (ACP) and several funds now use a performance-based allocation system. Member governments are now, in general, more familiar with how performance-based allocation systems work. Decision makers are unlikely to be knowledgeable about the details of the RAF but the general message that good performance is needed seems clear to the GEF focal points. The RAF has, so far, not been used for dialogue with national governments on environmental policy issues.

1.2 Basic Features of PBA Systems

All performance-based allocation systems have certain features in common. First they are methods of making "indicative" allocations of concessionary resources, not methods to create entitlements.[5] Second, in order to achieve transparency and consistency, they use an explicit allocation formula. In all cases that formula contains variables pertaining to "needs/potential" and variables pertaining to "country performance". The weight given to each variable is decided in accordance with the priorities of the organization.[6]

1.3 Coverage

PBA systems vary in the number of countries they cover; the resource instruments used (loans, guarantees and grants), the topics/focal areas covered, and the number and type of exclusions and waivers allowed. In general the portion of resources disposed by the PBA formula varies from about 60% to almost 100%. GEF is at the high end of this range.

Table 1.3 Number of Eligible Countries, by institution

Multilateral Development Bank	Number of Eligible Countries		
	Concessionary Only	Blend*	Total
African Development Bank	38	2	40
Asian Development Bank	19	5	24
Caribbean Development Bank[7]	1	18	19
GEF (grants only)	161	N/A	161
IFAD**			131
Inter-American Dev. Bank (FSO)	5	5	10
World Bank (IDA)	66	15	81

* 'blend' borrowers can access both concessionary funds and ordinary capital resources in the one loan

** IFAD ordinary terms in 2008 include an interest rate of 4.27% and intermediate terms an interest rate of 2.14%. IFAD disburses loans and grants up to 10% of the combined total of loans and grants. The IFAD Lending Policy describes the three levels of concession as follows: "(1) Highly concessionary: Having a Gross National Product (GNP) per capita of USD 805 or less in 1992 prices or classified as International Development Association (IDA)-only countries, shall normally be eligible to receive loans from IFAD on highly concessionary terms. The total amount of the loans provided each year on highly concessionary terms shall amount to approximately two thirds of the total amount lent annually by IFAD; (ii) having a GNP per capita of between USD 806 and USD 1 305 inclusive in 1992 prices shall normally be eligible to receive loans from IFAD on intermediate terms; and (iii) having a GNP per capita of USD 1 306 or above in 1992 prices shall normally be eligible to receive loans on ordinary terms.

The mandate of the various organizations also varies, as does the geographical coverage. The World Bank, IFAD and the GEF work world-wide, while the rest have a regional mandate. All organizations, except the GEF, mainly focus on poverty alleviation, specifically the achievement of the Millennium Development Goals that call for the elimination of poverty and for sustained development..

2.0 ALLOCATION AND REALLOCATION

2.1 Allocations

There are two types of allocation formulae in use by multilateral development banks and funds. One is geometric and one linear. The geometric formula, used by GEF, derives originally from the World Bank/IDA. It is a multiplicative formula, and each variable has an exponent that reflects its importance.[8] The formula calculates a composite score and each country receives an allocation in proportion to that score.

A second type of formula was chosen by the Inter-American Development Bank. It is a linear (additive) formula. Instead of a single pot of funds allocated according to a single composite score, there are separate pots each allocated according to one variable.[9] A country's total allocation is the sum of its separate allocations from each pot.

Until 2007 the IDB used this system to allocate all of its concessionary funds. In 2008 it allocates half its concessionary funds in this fashion, and half according to a multiplicative formula. The Inter-American Development Bank formula has two important advantages. First it is more transparent and, second (partly because of its clarity and simplicity) it may reflect the intent of the Bank's Board better than a formula that is more difficult to grasp intuitively. Transparency and clarity are, of course, extremely important to

the rationale for using a performance-based formula at all. The easier the formula is to understand, the more clearly can its incentive aspects be communicated to the eligible countries.

The two main types of allocation formula, (1) multiplicative with exponent weights and (2) additive with simple percent weights, each have their advantages and disadvantages. The multiplicative type of formula (GEF and others including IDA) takes all variables into account simultaneously. Therefore it is complex, and this complexity is increased by the use of exponent weights. However, also because the variables are multiplied together, a country's allocation can be strongly affected at the margin by a change in one variable (which in practice tends to mean the allocation is strongly affected by change in performance, since the "needs and potential" scores tend to change relatively little).

Table 2.1 shows various allocation formulae and the weights of variables in those formulae. The balance between the weight of "needs/potential" variables and "performance" variables is particularly pertinent to incentives. Any variable can have incentive effects but the performance variable is the one designed with the closest eye to providing incentives.

Table 2.1: Factors[10] in Various Allocation Formulae

Institution	Allocation Formula			
	"Needs and Potential" Factors		Performance Factors	Result
AfDB	$POP^{1.0}$ x $GNPPC^{-0.125}$	x	$(0.26CPIA_{A-C} + 0.58\ CPIA_{D} + 0.16PORT)^{4.0}$	= allocation share
AsDB	$POP^{0.6}$ x $GNPPC^{-0.125}$	x	$[(ES\text{-}CPIA^{0.7} \times PORT^{0.3}) \times GOV]^{2.0}$	= allocation share
CDB	$LogPOP \times GNPPC^{0.9} \times VUL^{2.0}$	x	$(0.7\ CPIA + 0.3\ PORT)^{2.0}$	= allocation share
EC (ACP)	$LogPOP \times 0.2\ GNPPC^{-1.0} \times 0.2\ HDI^{-1.0}$ x DEBT x VUL			= allocation share
GEF	$GBI^{0.8}$	x	$[0.2CPIA + 0.10PORT + 0.70CPIA]^{1.0}$	= allocation share
IDB (FSO)[11] Half the fund by each of two formulae.	$POP^{0.5}$ x Per capita $GNI^{-0.25}$	x	$(0.3PORT = 0.7CIPE)^{2.0}$	= allocation share
	(0.22FUND x POPShare) + (0.18FUND x Per capita GNPShare)	+	(0.6FUND x PERFORMANCESCOREShare)	= $ allocation
IFAD	$POP^{0.75}$ x $GNPPC^{-0.125}$	x	$(0.2CPIA + 0.35PORT + 0.45RuralCPIA)^{2.0}$	= allocation share
World Bank (IDA)	$POP^{1.0}$ x $GNPPC^{-0.125}$	x	$(0.24CPIA_{A-C} + 0.68CPIA_{D} + 0.08\ PORT)^{5.0}$	= allocation share

Source: Inter-Organizational Technical Meeting on Performance-Based Allocation, IFAD, Rome, 2008
Notes: GBI = Global Benefits Index (calculated differently for the two focal areas – climate change and biodiversity.[12]

However the implications of even a simple allocation formula require some thinking through. For example, one result of the IDB 'additive' model is that shares of the funds allocated according to 'need' tend to be protected because population and per capita income do not vary much from year to year. For example, Haiti, having ten times the population of Guyana, will receive about ten times as much from the 'population determined' pot of funds no matter what happens to the other variables. One way of looking at this is to say that the large-population low-income countries are protected in regard to their share of the needs-determined pot of funds. However they have to compete on an equal footing with all other eligible countries (including small countries) for the performance-determined pot of funds.

2.2 Reallocations

Reallocation is a tool to ensure that funds are used in a timely fashion. This can be achieved in at least two ways. First, full ("de novo") reallocations can be frequent. Second, there can be special provisions for reallocation, either immediately (from "expected active" to "expected inactive" countries); or late in the cycle.

Table 2.2: Reallocation Practices

Organization	Full Cycle	Reallocation Frequency	Special Provisions
GEF	Four years	50% of funds allocated every two years	The mid-term reallocation is constrained in that a country with an individual allocation in the first two years does not lose any of that allocation at midpoint whether no matter how much or how little has been used in the first two years. There will be a general reallocation of unused funds in year 4 according to a Methodology to be developed.
World Bank (IDA)	Three years	One year	Reallocation of unused funds in year 3, on a case-by-case basis, but only from lower performing to higher performing countries, and subject to a country receiving no more than 30% additional to its original allocation.
International Fund for Agricultural Development	Three years	Three years	(1) Immediate reallocation in year 1 from inactive to active countries; and (2) reallocation of unused funds in year 3. The PBA formula is used to reallocation unused funds among active countries.
Asian Development Bank	Two years	One year	Reallocation of unused funds in year 2.
Inter-American Development Bank	Two years	Two years	Unused resources are added to the budget for the next replenishment cycle.
African Development Bank	Three years	Three years	Unused resources are reallocated in year 3 to active countries using the PBA formula.
Caribbean Development Bank	Four years	Two years	Unused resources are reallocated using the PBA formula. As well there is a good deal of flexibility in loan and grant approval levels – allocations are truly "indicative" not entitlements.

Source: Comparative Table, Inter-Agency Technical Meeting, Rome, 2008

With the exception of IDB, which carries unused resources into the next cycle, the GEF, so far, is the least active in reallocating unused funds. Other organizations take various approaches to ensure funds are used. The World Bank/IDA, for example, reallocates all funds every year, and in addition allows case-by-case reallocations in the final year of the cycle from lower-performing to higher-performing countries.[13] IFAD makes an initial allocation and then immediately reallocates funds from 'expected inactive' to 'expected active' borrowers. Allocations above expected demand are re-pooled and allocated again using the standard allocation formula.[14]

Final Year Adjustments

Most organizations allow more flexible adjustments to allocations than usual in the final year of the replenishment period. For example, the World Bank (IDA) allows shifting of allocated monies from one country to another in the final year of the allocation period, on a case-by-case basis. Such case-by-case reallocations must be from a country with a lower performance score to a country with a higher performance score; and there is a 30% ceiling on the additional funds a country may receive over and above its original allocation. Other organizations have various rules. Some do general re-pooling and reallocation. Some allow case-by-case reallocations. In general most systems allow more flexibility in reallocating resources in the final year of the replenishment period.

The more flexible the rules about early reallocations are, the less important the final year reallocations tend to be. For example the World Bank (with its annual allocation of re-pooled funds) and IFAD (with

its early reallocation from 'expected inactive' countries to 'expected active' countries) tend to avoid large reallocations in the final year of the cycle.

2.3 Country Groups

Organizations group their eligible countries in various ways for purposes of resource allocation. Grouping is mainly used to benefit smaller and poorer countries.

Table 2.3: Country Groupings for Resource Allocation

Organization	Grouping Method	Rationale
GEF	Two groups of countries in each of two focal areas. The groups in each focal area are defined as (1) the minimum number of countries whose total indicative allocations add to 75% of the funds available; and (2) the rest. In principle, each country in group 2 has access to the maximum indicative allocation of any country in the group, subject to availability of funds within the group allocation.	Benefit smaller countries. Enable the active small countries to increase their project size. Risk of exhausting the Group 2 total allocation.
World Bank (IDA)	Grouping "eligible/ineligible". Eligible countries must have a GNPpc <$1095 in 2009. Sixty-six countries are eligible for concessionary finance and 15 for blended finance. Post-conflict and fragile states receive special (enhanced) allocations.	Benefit poor countries. Assist transition to normalcy in post-conflict and fragile states.
International Fund for Agricultural Development	Grouping "active/inactive". Of the 140 member countries during IFAD 8, approximately -- were classified as "active" for purposes of indicative resource allocation.	Ensure that allocations were used in a timely manner.
Asian Development Bank	The Pacific member countries are a treated as a separate sub-group for resource allocation purposes, with a set amount of funds for the group (a small percentage of total ADF funds, generally about $50 million), which is allocated among them only, using the normal ADF allocation formula.	Benefit small countries and, in particular, small Pacific island states.
Inter-American Development Bank	Group 1: Five Poorest Countries.[15] Fund for Special Operations. Highly concessionary funding.[16] Group 2: Five next poorest countries[17] Blended finance.[18]	Benefit poor countries.
African Development Bank	The AfDB provides concessionary finance to 38 countries and blend finance to 2. The countries are the same as the IDA-eligible countries in Africa. Post-conflict and fragile states are a relatively large group that receives special (enhanced) allocations.	Benefit poor countries. Assist transition to normalcy in post-conflict and fragile states.
Caribbean Development Bank	Four country groups. (1) technically eligible but with very limited access to concessionary funds. (2 and 3) concessionary[19] allocation. (4) Haiti and Guyana) have capped allocations and their loan terms and conditions are the most favorable.	Benefit poor countries without crowding out by the two large country members.

The GEF divides its eligible countries into two groups[20] in each of the focal areas subject to performance-based resource allocation.[21] Group 1 is the smallest set of countries whose total allocations add to 75% of the funds available.[22] Group 2 are the rest.[23]

The grouping is potentially important to small countries because it substantially increases the amount of resources that any particular small country may be able to access. However it appears to have at least two limitations, compared with other approaches. First, if all countries in Group 2 were to apply for their maximum possible allocations there would not be sufficient funds in the group allocation to grant them all. GEF does not assume any cash flow risk (as the EU ACP does). However, although in principle this intensifies competition among the smaller countries, risk appears to be low because at mid-point of the current cycle, funds utilization is low, not high. Second, there is some confusion about just what the total Group 2 allocation is, given targeted supplements and exclusions.[24]

In summary GEF's grouping of countries provides the smaller countries with greater flexibility and with a potential allocation large enough for a viable project. However these objectives were attenuated by a ceiling on the total funds available to Group 2, and also by limiting each country's access during the first two years of GEF4 to a ceiling equal to 50% of its maximum four-year allocation.

2.4 Regional Projects

Most organizations set aside some concessionary funds, outside the formula-based allocations, specifically for regional projects. Apart from the value of regional projects in themselves, the set aside provides some flexibility for countries that have a small allocation to participate in a more significant project than might otherwise be possible.

Table 2.4: Set-Asides for Regional Projects

Organization	Regional Projects	
	Amount allocated	Conditions
GEF	5% of total resources in both diversity and climate change	5% shared among regional and global projects, with no set ratio. In addition, 5% to small grants and cross-cutting activities (which are in the form of global projects).
World Bank (IDA)	4% of IDA 15 (SDR 1.2 billion)	2/3 of project funding from the regional pool and 1/3 from individual country allocations (up to a maximum of 20% of the individual allocation). About 80% goes to Africa. Must meet criteria.[25]
AfDB	17.5% of ADF 11 (SDR 953 million)	Each country must cover 1/3 of costs within its borders (with a ceiling of 10% of costs if the country's allocation is less than SDR 2 million)
IFAD	No set aside	N/A
AsDB	10% of ADF 9	2/3 of project funding from the regional pool and 1/3 from individual country allocations (up to a maximum of 20% of the individual allocation)
CDB	10% of SDF 6	Country must provide 20% of each project budget supported by grants. True of regional projects as well.
IDB	No set aside	N/A

Each multilateral development institution defines regional projects differently. However there are common elements. The World Bank/IDA defines them as having five characteristics.[26] The World Bank/IDA introduced a 'pilot envelope' for regional projects of up to $450 million per annum during FY04-05, which represented about 5% of the IDA funds available for commitment. The integrity of the IDA performance-based allocation system will be protected by requiring one-third of each project budget to come from the participating countries' normal IDA allocation. The additional two-thirds will come from general IDA resources, and this amount will be on credit terms without a grant component. IDA draws a link between regional projects, regional integration and trade.[27] The performance criteria for regional projects have yet to be developed.

The African Development Bank set aside 10% of its ADF funds for regional economic integration and co-operation.[28] The Caribbean Development Bank sets aside about 10% of its Special Development Fund for regional projects; but has tended to reallocate this money to other purposes at mid-term.

The Asian Development Bank's charter charges the Bank with supporting regional and sub-regional cooperation activities. The Bank's first Sub-Regional Co-Operation Strategy and Program (for the Mekong Region) was reviewed in 2004-05. In 2002 the Asian Development Fund commitments for sub-regional cooperation amounted to $100 million (about 6.5% of the total commitments). In 2003 the figure

was $85 million (5.2%). In 2004 it was $55 million or 17.7% of current commitments, and it has stayed approximately at that level since.

The Inter-American Development Bank has not made separate allocations of FSO funds for regional projects, perhaps because the five eligible FSO countries are geographically widespread and therefore do not offer significant opportunities for regional projects without involving non-eligible countries as well. In cases where Regional projects have involved FSO countries, financing came from each individual country's allocation in proportion to its participation in the project.

Among many funding organizations, the methodology for funding regional projects is still evolving, and several aspects appear to be challenging. First, if one of the participating countries is small, with a small allocation, it might find it difficult to participate fully in a regional project. The World Bank/IDA has suggested that in these cases additional frontloading of a multi-year allocation, or special scheduling of contributions to the project, may be required.[29] Second, the cost distribution may have to be adjusted to reflect the relative benefits to various countries in innovative ways rather than simply assuming that work done on one national territory will be paid for by that government alone. Third, in regard to the lending organizations, a special situation can arise when a country that is essential to the regional project is not eligible because its repayment of previous loans is so far in arrears that it has fallen into non-accrual status. In this case some indirect way of managing that country's participation is necessary.

3.0 INCENTIVES FOR PERFORMANCE

3.1 Client Understanding of Performance Scores

The incentive effects of the GEF geometric formula are compromised because it is difficult to understand and its likely outcomes from year to year are difficult to predict. This is true of all similar PBA systems. In contrast, the IDB 'additive' model has some limitations as well in regard to incentives, at least in extreme (but important) cases.[30] On the other hand, the fact that the linear formula enables small countries to compete on an equal footing with larger countries for a share of the 'performance pot' is a benefit to small countries that some approve. For example the Asian Development Bank has deliberately sought to incorporate a "small country bias" in its allocation formula (although not by this mechanism).

The objectives of performance-based allocation systems cannot all be maximized simultaneously. All formulae embody trade-offs between meeting needs and rewarding performance. In the real world, not unexpectedly, high-need countries do not tend to be high-performance countries, and no formula fits extreme cases completely comfortably.

3.2 Focus on Performance

All organizations' formulae give more weight to 'performance' than to 'needs and potential'. The exponents on the 'needs and potential' variables vary from about 0.6 to 1.0. GEF's choice of 0.8 for its GBI puts it squarely in the middle of this customary range.

However the weight of "performance" varies much more. The exponents on 'performance' variables vary from 1.0 to 5.0. The performance exponent in the GEF formula is the lowest among the organizations that use a performance-based RAF. One can look at this in two ways.

- The simple magnitude of the GEF exponent on 'performance' is the lowest used by any organization (1.0 as compared with a range among other organizations of 2.0 to 5.0).

- The GEF exponent on the 'needs and potential' variable is relatively large (0.8 as compared with 0.125 to 0.9, with one outlier at 2.0), which strengthens the relative weight of the performance variable.

Consequently the GEF RAF, with an exponent of 1.0 on the performance variable, is much less sensitive to changes in performance than is the case with IDA.
The intense sensitivity of the IDA formula to changes in country performance is new. The traditional World Bank (pre-IDA15) allocation formula had an exponent of 2.0 on the performance variable. The most common exponent on the performance variable is still 2.0 (AsDB, CDB and IFAD). However the World Bank first added a separate "governance" variable, double counting part of the CPIA, and then, during the IDA 15 negotiations, dropped the separate governance variable, split the CPIA performance variable into two, and raised the exponent on the performance variable to 5.0.

3.3 Performance and Potential/Need

In general all of the allocation formulae contain two sets of variables, one relating to "need and potential benefit" and one relating to "performance". The key distinction between them is that the "need and potential benefit" variables are not subject to government control in the short term (population, income per capita, vulnerability, human development index, biodiversity). The "performance variables" are more controllable by the member governments (portfolio performance, and policy and institutional performance). However there are some mixed cases, where variables in the "needs and potential" category do, in fact, have a performance component and therefore might be responsive to incentives. For example:

- The Caribbean Development Bank variable "vulnerability" (VUL) includes an economic component, fiscal and monetary, that is partly a matter of government policy performance.

- The European Commission's variables DEBT and VUL are similarly partly a matter of government policy performance.

- The GEF variable "change in carbon intensity" (climate change focal area) is partly a matter of government policy performance.

Therefore the incentive effects of the allocation formula might operate partly through these variables as well.

Both types of allocation formula (multiplicative and additive) can be weak in how they define "potential and needs". For example, in the case of GEF, large emitters of greenhouse gasses might provide the best opportunities for improvement, or they might not. Similarly, in other PBA formula, gross population and per-capita income are not particularly good measures of poverty. However, this weakness is more visible in the IDB 'additive' formula, because each variable operates separately.[31] In general the best approach is to use a simple transparent formula and to make sure that each variable is a good measure of something that can logically be given its own weight. Table 3.3 shows the weights of related variables used in the various allocation formulae.

Table 3.3 Weights of Variables in the Allocation Formulae

Institution	Variables in the Allocation Formula					
	POP	**GNPpc**	**Performance**	**DEBT**	**VUL**	**HDI**
African Dev. Bank AfDF 10	POP $^{1.0}$	GNPpc $^{-0.125}$	PR $^{2.0}$			
African Dev. Bank AfDF 11	POP $^{1.0}$	GNPpc $^{-0.125}$	PR $^{4.0}$			
Asian Development Bank AsDF8	POP $^{0.75}$	GNPpc $^{-0.25}$	PR $^{1.8}$			
Asian Development Bank AsDF9	POP $^{0.6}$	GNPpc $^{-0.25}$	PR $^{2.0}$			
Caribbean Dev. Bank	Log POP	GNPpc $^{-0.9}$	PR $^{2.0}$		VUL$^{2.0}$	
IDB (FSO) 2002	0.27POP	0.23 GNPpc	0.5 PR			
IDB (FSO) 2003	0.22POP	0.18 GNPpc	0.6 PR			
IDB (IFF) 2002	0.16POP	0.18 GNPpc	0.5 PR	0.16DEBT		
IDB (IFF) 2003	0.13POP	0.13 GNPpc	0.6 PR	0.13DEBT		
IDB (FSO) 2008	0.22 POP	0.18 GNPpc	0.6 PR			
IFAD	POP $^{0.45}$	GNPpc $^{-0.25}$	PR $^{2.0}$			
EU EDF/ACP	Log POP	0.2GNPPC $^{-1.0}$		7 factors	Premium[32]	0.2HDI $^{-1}$
World Bank/IDA 14	POP $^{1.0}$	GNPPC $^{-0.125}$	PR $^{2.0}$			
World Bank/IDA 15	POP $^{1.0}$	GNPPC $^{-0.125}$	PR $^{5.0}$			
Range of exponents	**0.75 to 1.0**	**-0.125 to -0.9**	**1.8 to 5.0**			
GEF RAF	GBI $^{0.8}$		GPI $^{1.0}$			

Notes: POP = population; GNPpc = gross national product per capita; Performance = score on various performance criteria; DEBT = national debt; VUL = vulnerability as measured by an index number; and HDI = the UN Human Development Index.

Among these variables, the debt service ratio is taken into account only by the EC (ACP); and by IDB prior to 2007 in regard to the Intermediate Financing Facility. The use of a debt variable appears to be a 'hold over' from an earlier allocation methodology before country performance was made an explicit allocation criteria. Being heavily indebted is not the sort of "need" that should be rewarded with greater access to concessionary funds (at least not if incentives are important and allocation is mainly performance based). Of course the same may be said of the "greenhouse gas emissions" variable in the GEF RAF formula for climate change resource allocations.

3.4 Broad Framework Indicator (Governance)

In addition to the country score on policy and institutional performance (CPIA), several organizations have attempted to add extra weight to the indicators of the general administrative competence of the recipient government. For example, the GEF RAF uses three performance variables – a measure of project (portfolio) performance, a measure of performance on environmental policy and institutions,[33] and a measure of performance on broad administrative competence.[34] GEF calls the latter a "broad framework indicator". The GEF gives a relatively modest weight of 20% to this broad framework indicator. It comprises essentially the same set of criteria that other organizations (IDA, AfDB, AsDB, and CDB) call "governance".

Table 3.4: Weight of the Broad framework/Governance Indicator

Institution	Weight to the Broad Framework Indicator (Governance) as part of Country Performance
GEF	20%
World Bank (IDA)	68%
AfDB	58%
AsDB	Exponent of 1.0 (compared with 0.7 and 0.3 exponents on other performance factors)
CDB	25%
IFAD	25%

At present the World Bank IDA gives a heavy weight to the governance/broad framework indicator – 68% of the total weight of the performance variables (compared with 24% for the rest of the CPIA criteria

combined, and 8% for portfolio performance). In fact the governance cluster of criteria (broad framework) is even more influential than it may appear. Not only does it comprise 68% of the weight of the performance score but that score is raised to a power (exponent) of 5.0, a much larger exponent than any other factor in the allocation formula.

Other organizations also give a heavy weight to the governance/broad framework indicator. The AfDB gives it a weight of 58% and uses an exponent of 1.0, compared with the exponent on the rest of the CPIA (0.7) and on portfolio performance (0.3).

There has been a long evolution of these "governance" weights.[35] In 2003 IDA changed its formula, on the grounds that it had created a discontinuity in the allocation curve (an empty middle). IDA's exponent on the country performance rating was made 2.0 across the board. During IDA 14 the World Bank took a different approach to enhancing the weight of governance in the allocation formula. It added a new variable (GOV) with its own weight.[36] However this raised two difficulties. First it greatly increased the complexity of an already complex formula; and, second, it visibly 'double counted' the scores on the governance criteria in the CPIA. Therefore, in IDA 15, the CPIA score was divided into two, one for the 'governance' cluster of criteria and one for the rest. This solved the double counting problem while still enabling the World Bank to give a separate and high weight to governance. In IDA 15 the exponent on performance was increased to 5.0.

3.5 Portfolio Performance

Country performance has two components: (1) portfolio performance (loan or grant portfolio) and (2) policy/institutional performance. Both are scored on the same standard scale (1 to 5, or 1 to 6). Almost all PBA formulae, including the GEF RAF, assign simple additive weights to these two performance factors. The only exception is the AsDB that has complex exponent weights for the two. Before ADF 9, AsDB used simple additive weights for the performance factors as well and changed for complex reasons to do with harmonization with the World Bank/IDA.[37]

The weight of portfolio performance in the different allocation formulae varies from 8% (World Bank IDA) to 30% (CDB, and IDB FSO). The reason for different weights is essentially different judgments about the reliability of the measures of portfolio performance, and, perhaps, somewhat different priorities in regard to portfolio performance relative to policy/institutional performance.

Table 3.5: Weights of Portfolio Performance and Policy/Institutional Performance in the Country Performance Rating

Institution	Portfolio Performance Weight	Policy/Institutional Performance Weight
African Development Bank, AfDF	16%	84%
Asian Development Bank, ADF 8	15%	85%
Asian Development Bank, ADF 9	PORT has an exponent of 0.3 and the CPIA other than governance has an exponent of 0.7	
Caribbean Development Bank, SDF*	30%	70%
European Development Fund, ACP*	20%	80%
GEF	10%	90%
IFAD	35%	65%
Inter-American Development Bank, Fund for Special Operations[38]	30%	70%
World Bank, IDA 14	20%	80%
World Bank, IDA 15	8%	92%

* The European Union (EDF ACP) and the Caribbean Development Bank (SDF) are not comparable with the others in this table, because additional factors in their formulae, not shown here, modify the effective weight of the two performance components (portfolio performance and policy/institutional performance).

GEF's Portfolio Performance Indicator (PPI) measures each country's average performance in environmental projects over the past ten years. It gives equal weight to two things: (a) the average of GEF project ratings contained in the Project Implementation Review, and (b) the average World Bank Independent Evaluation Department rating of environment-related projects.

All other organizations that use a performance-based allocation system have a formula that includes a measure of portfolio performance. However it has tended to be a controversial variable. Its weight varies a great deal from one formula to another, for example from 8% (IDA) to 35% (IFAD). The weight GEF gives to project performance is at the lower end of the range (10%). Since PPI is the only part of the performance factor that is based directly on GEF judgments (in contrast with those organizations that calculate their own CPIA scores rather than using World Bank scores) there is perhaps an argument for giving more weight to PPI.

There are arguments for and against a high weight for PPI. Some believe that PPI is worth considerable weight because it is a good indicator of likely performance under a new grant, is relatively objective, and provides an incentive for performing well on GEF projects. Others believe that it is unwise to give much weight to PPI because project performance is a result of many factors including donor behaviour. The average project performance score for a particular country may also be somewhat open to manipulation. For example, consider a country that has only two projects, one well performing and one poorly performing. If it closes the poorly performing project early, its portfolio now contains only the well performing project; and, as a result, its PPI score, say, doubles. Even without such manipulation the portfolio performance scores for countries with a small portfolio of projects are inherently unstable in the short term.

In contrast, in the long term, portfolio performance scores can be too stable. If one takes a very long-term view (as GEF does with its 10 year perspective on portfolio performance) then PPI can be out-of-date and slow to change. If it is, there might be little incentive for a country to try to improve it.

There is inevitably some tradeoff between stability (by being averaged over a long period of time) and responsiveness and predictive accuracy (by emphasizing recent performance).

3.6 Responsiveness to Performance Variables

It would be possible, although not easy, to compare how responsive different organizations' allocations are to their performance variables. One could, for example, apply the different formulae to a standard set of country data and identify the relative responsiveness to, say, a 10% change in performance score. This would need further elaboration because organizations have very different mixes of eligible countries and this affects the outcome. However that level of analysis is beyond the scope of this paper. Suffice it to say that one cannot easily tell from a formula how much effective weight is given to performance because it requires complex calculations of elasticities. However, as a rule of thumb, most organizations, including IDA[39], IFAD and the regional banks, have generally sought to have about 60% of the variance of the country allocations determined by the performance variables in the formula. The exponents on variables in the GEF RAF formula are approximately in balance with this idea - performance is more heavily weighted than "need/potential" but not by a lot. (Country score = $GBI^{0.8}$ x $GPI^{1.0}$)

This section, then, is more limited in scope than a general comparison across all organizations. As a first step towards understanding responsiveness to performance, it compares the responsiveness of GEF allocations to changes in the "needs/potential variables" and changes in the "performance variable" in two focal areas.

(Scenario A) More weight on "needs/potential variables" in the climate change focal area.

What happens to the distribution of indicative funds if the weight of GBI (emissions and change in carbon intensity) is increased in the climate change focal area? Not a great deal. We found that, given the existing formula, allocated funds are highly concentrated in the top GBI quintile and that this changes only a little if the weight (exponent) of GBI is increased from 0.8 to 1.56. When the GBI exponent is 0.8, as it is presently, the top quintile of countries are allocated 76% of climate change funds. The bottom quintile is allocated only 3%.[40] The resource concentration coefficient (defined as the ratio of the funds allocated to the top quintile relative to funds allocated to the bottom quintile of countries) is 23.5 to 1. Increasing the weight of GBI in the allocation formula strengthens this pattern a little. The top quintile increases its share from 76% to 85%, and the resource concentration ratio rises from 23.5 to 26.5. The fundamental concentration of funds in climate change allocations to relatively few countries is undisturbed.

(Scenario B) More weight to "performance" in the climate change focal area.

Not much happens if the weight of "performance" in the climate change allocation formula is doubled. The top quintile of countries by performance increases its share from 44% to 48%, and the resource concentration ratio rises from 11.2 to 13.2.[41] Essentially climate change allocations are not sensitive to performance. The reasons for this include the fact that China's allocation does not change (since it is at the ceiling already and no amount of improvement in its performance is going to push its allocation past that ceiling); and the allocations of the grouped small countries are also constrained by country minimums and by a group maximum. However if the exponent weight of 'performance' is increased a lot – say from 1.0 to 5.0 – then the allocations do become more sensitive to performance. The top percentile of countries (by performance score) increases its share of allocations from 44% to 62%, and the resource concentration ratio increases from 10.6 to 18.1.[42] In summary, the GEF climate change allocations are not very responsive to changes in country performance unless the weight on performance is greatly increased.

(Scenario C) More weight on "needs/potential variables" in the biodiversity focal area.

Like climate change, biodiversity allocations are heavily concentrated in the top quintile and only modestly responsive to increases in the weight of GBI in the allocation formula.[43] Also, as the weight increases, the top quintile takes funds away from the second top quintile. It makes little difference to the three bottom quintiles, essentially because many countries in the bottom quintiles have "fixed allocations" at a minimum indicative $1 million. This does not change for most of them as the weight of GBI changes.

(Scenario D) More weight on "performance" in the biodiversity focal area.

What happens if the weight of GPI (policy and institutional performance, and portfolio performance) is increased in the biodiversity focal area? Before answering this question it is worth noting that in the biodiversity focal area allocations are considerably less concentrated in the upper quintiles of performance than was the case with climate change. In biodiversity the resource concentration ratio at present is 2.7 whereas in climate change it is 10.6.

If one were to double the exponent on "performance" the funds allocated to the top quintile of countries would increase from 33% to 38%.[44] This is not much, and would be unlikely to make a difference to a country's incentive to try to be in the top quintile. Nevertheless the resource concentration coefficient does increase substantially because the lowest quintiles lose share to the top quintile. Also, if one were to radically increase the weight on "performance", say from 1.0 to 5.0, then the responsiveness of allocations to performance would increase significantly. The countries in the upper quintile of GPI scores would increase their share of funds from 33% to 52%; and the resource concentration ratio would change from 2.7 to 10.7.[45]

In summary, although the general format of the allocation formula is the same for climate change and biodiversity the incentives provided to countries in each focal area are different. In climate change, where one might have expected the greatest scope for incentives because there is wide scope for policy interventions to lessen emissions and to improve carbon intensity in the economy, the sensitivity of allocations to performance is weak. In biodiversity, responsiveness to performance is stronger.

3.7 Vulnerability

GEF does not include "vulnerability" in its allocation formula as some other organizations do. Some countries have a greater need for concessionary financing because their environmental and development efforts are inherently at greater risk than other equally poor countries. The risk may arise from natural threats (such as typhoons or earthquakes); or, in the context of IDA assistance, for example, greater vulnerability from unavoidable economic dependencies on commodities whose world prices are volatile, or from being landlocked or remote and therefore subject to disruption of essential economic relationships.

Two MDBs include measures of vulnerability in their allocation formulae. The Caribbean Development Bank is one. Within the Caribbean some countries are more exposed to natural disasters, such as hurricanes, than others. For example, the CDB has developed an index, using six indicators of vulnerability, and part of this index is used in allocating concessionary resources.[46] Ten of the twenty-eight countries worldwide that are listed by the Commonwealth Secretariat as highly vulnerable are member countries of CDB.[47]

The European Union EDF/ACP also incorporates vulnerability considerations into its allocation, but does it by adding or subtracting a premium after its basic allocation formula has been applied. This is done in two stages, with "A" and "B" resource envelopes. The "A" envelope is the larger (routine concessionary lending). The "B" envelope is earmarked for emergency lending (assuming vulnerable countries will have more emergencies), and is calculated as a percentage of the "A" envelope, depending on four factors, three of which relate to vulnerability.

The Asian Development Bank has implicitly taken vulnerability into account in setting aside a separate pool of funds for the small Pacific states. In doing this ADB stated "many very small countries are structurally vulnerable to natural disasters and shocks."[48] and "*Efforts will be made to adapt and/or develop indicators of structural vulnerability as determinants of the allocation for small countries. Indicators of performance more suited to the island economies will be refined and adopted over time. The ongoing work by the World Bank and the Commonwealth Secretariat to develop a composite vulnerability index is an area of potential relevance in this regard.*"[49]

Various approaches to taking vulnerability into account include using 'expected values' in the allocation formula;[50] treating vulnerability as a factor in justifying separate treatment of a country or countries, but not use VUL in the allocation formula itself; having a contingency or reserve fund for disaster-response lending rather than a VUL variable in the formula; or incorporating a vulnerability variable in the allocation formula using index measures of vulnerability, as Caribbean Development Bank and the EU do.[51]

3.8 Link to Results

Organizations undertaking performance-based allocations in the past have been reluctant to take too much notice of economic and social results in assessing country performance. The argument has been that results may be influenced by random factors outside the control of the government, and therefore it would be unfair to let them determine the resource allocation.[52] Nevertheless PBA systems have sought to reward improvements in country performance, but few have measured improvement directly. GEF comes closest with its use of the "change in carbon intensity" variable in the climate change allocation formula.

Despite a lack of success so far, there is a general consensus among organizations that more needs to be done to harmonize a performance-based allocation approach with a "management by results" framework. Existing allocation formulas include measures of current performance (and thereby give an indirect incentive for improvement) but they do not incorporate variables that measure actual change in performance or results obtaining from better performance (and therefore the formulae do not provide a direct incentive for performance improvement). One approach that some organizations have tried, generally unsuccessfully, is to have a system of country-specific performance criteria (triggers), separate from and in addition to the allocation formula, that are negotiated with each member country.[53] Specific performance of these 'triggers' can increase or decrease a country's allocation.[54] The 'triggers system' tried to provide a direct incentive for improved performance, but at the cost of a time-intensive process that lacked consistency across countries. No organization, to our knowledge, has continued with the triggers system.

Although triggers are potentially a strong incentive mechanism because they give immediate feedback, in practice their incentive effects were limited. Their credibility was limited because there was no visible reserve of funds; so providing the extra allocations involved reallocating funds initially assigned to other countries. As well, formulating and negotiating triggers, and then assessing their achievement, added another layer of complexity and subjectivity to a process that was already heavily burdened. Lastly,

because triggers were deliberately country-specific and situation-specific, it was difficult to ensure fairness across countries.

The World Bank tried triggers and discontinued them in IDA 14. Each Country Assistance Strategy (CAS) was to contain a low-case lending scenario, a base case and a high-case (up to 40% above the base-case). The high-case lending was to be contingent on the country achieving certain policy and institutional targets (triggers). There was no reserve of funds set aside to accommodate trigger increments. It was assumed that the overall effect on the total allocations would be neutral - a zero sum game - although there was no specific mechanism to ensure this. Having a large number of borrowers gave IDA a reasonable chance that the positive and negative increments caused by triggers would net to zero or close to zero. The fact that IDA does not carry over unused allocations from year to year also provided more flexibility to meet high-case contingencies from the funds 'lapsed' by other countries.

Change-in-performance variables provide an alternative to the use of triggers. Having change-in-performance variables in the allocation formulae might avoid some of the problems enumerated above, and is more effective with countries starting from a low base of policy and institutional performance since improvement would now be rewarded even if the absolute level of performance were still low. A performance-change variable also provides a natural connection between resource allocation and results-based management. There are various ways this could be done. It could simply be the difference between the policy-and-institutional performance score in the previous period and the current period (or, when data became available, change in performance could be averaged over several periods). If desired, the change-in-performance variable could take into account changes in portfolio performance as well as changes in policy/institutional performance. The alternatives discussed above are not mutually exclusive. It would be possible to have both a change-in-performance variable and triggers if one wishes to make the incentives for behaviour change as strong as possible.

4.0 FLEXIBILITY AND CONSTRAINTS

In a lending or granting program, formula-based resource allocations must be balanced with effective demand from eligible member countries. Effective demand is partly a matter of the member government's interests and priorities and partly a matter of absorptive capacity. Since these vary, and since the program's impact will be significantly affected by the timely utilization of its resources, most organizations have found it important to build flexibility into their resource allocation frameworks. There are several ways in which they do this.

4.1 Front-Loading

GEF restricts access to 50% of the country allocation in the first two years of the four-year cycle. Several organizations impose similar limits on "front-loading". IFAD, CDB and IDB are exceptions that impose no limits on when a country can access its allocation.

The rationale for limiting front-loading is, first, to smooth the demands on the organization's funds over a whole replenishment period, and, second, to discourage governments from using their whole allocation and returning for more, or neglecting to use an allocation until the last minute and perhaps 'lapsing' funds. However constraints on front-loading create practical difficulties – especially those faced by small countries trying to put together a viable-sized project with an already small allocation.

Table 4.1: Front-Loading Limits

Organization	Limits on front-loading
GEF	50% in the first two years of the four-year cycle
World Bank (IDA)	One third in each of the three years of the cycle, plus up to an extra 30% of the basic allocation in year one and year two. Small countries and capped blend countries can frontload higher percentages.
AfDB	In Year one, 50% of the whole allocation + half of the year 2 allocation. Year 2 and year 3 one quarter of the whole allocation each minus any front-loaded loans/grants.
IFAD	No limits. 100% in year 1 if desired.
AsDB	The amount that can be accessed in year 1 of the two-year cycle varies b y size of allocation. For allocations greater than $40 million, the country can access 62.5% of its total allocation in year 1; for allocations less than $40 million and population greater than 1 million the country can access 100% of its allocation in year 1. For allocation less than $40 million and population less than 1 million the country can access 175% of its two-year allocation in year 1.
CDB	No limits. 100% in year 1 if desired.
IDB	No limits. 100% in year 1 if desired.

There are various rules that constrain front-loading. For example the World Bank (IDA) has a three-year cycle that envisages a country accessing one third of its funds in each year. However there is 30% flexibility. In year 1, the maximum a country can access is one third of its total allocation + 30%. That is, a country can access approximately 40% of its total allocation in the first year. It can access another 40% in the second year. Therefore, theoretically, a country could access 80% of its total allocation at the start of the second year (that is, effectively after one year has elapsed).

GEF is more generous in the first year, allowing the country to access up to 50% of its total allocation in that year. But this limit is not increased in the second year. A country would have to wait till the start of year 3 before it can access more than 50% of its allocation. However at the midpoint of the allocation period (start of year 3) it can, in principle, access 100% of its total allocation.
Similarly the first-year share of a country's AfDB allocation can be increased by 50%, and the AsDB first year allocation can be increased by different amounts depending on country size, up to 175% for the smallest countries.

4.2 Back-Loading

In general organizations do not limit back-loading (that is, they do not limit waiting till late in the replenishment period) until the final year. In the final year allocations that have not been taken up are generally subject to reallocation.

However the implications differ from one organization to another. For example, GEF has specifically guaranteed that any country with an individual indicative allocation in the first half of the replenishment period will keep whatever part of that allocation is left for the second half. To put it another way, GEF allocates 50% of its funding at that start of the replenishment period and each country has the full four years to access that allocation. In contrast, some organizations reallocate all unused funds *de novo* at mid-term (CDB, for example); and some reallocate funds sufficiently frequently that the issue of allocating funds sitting unused for years does not arise. (IDA, for example)

4.3 Maximum (Capped) Allocations

Organizations may fix or cap allocations for several reasons. For instance, one may wish to avoid large countries crowding out small countries.

Table 4.3: Organizations that have a maximum allocation per country

Organization	Maximum allocation
GEF	(1) Biodiversity; 10% of total resources. (2) Climate change: 15% of total resources
World Bank (IDA)	Two blend countries are capped, India and Pakistan
AfDB	10% of total replenishment resources
IFAD	5% of total resources
AsDB	Soft cap. Blend countries with allocations above 14% of total resources receive only half their allocation above that level.
CDB	Haiti's allocation is capped, more because of capacity limitations than to avoid crowding out.
EU ACP	No
IDB	The Fund for Special Operations has two components, one capped at $25 million per year, and the other capped at $54 million per year per country.

To illustrate the effects of caps, in 2004-06 the World Bank/IDA capped India's three-year allocation at SDR 2 billion, Pakistan's at SDR 1.3 billion, and Indonesia's at SDR 600 million. The Bank notes that without a cap on the allocations of these three countries, they would have received 71% of all the available concessionary funds, reducing by nearly two thirds the allocations to other countries. The result, however, as the Bank also noted, is significant under-funding of these populous countries relative to the opportunities for alleviating the poverty of their people.[55]

The World Bank/IDA practices another form of allocation capping in the case of blend countries. The general rule has been to reduce the blend country's performance-based allocation by 25% of its projected borrowing of ordinary capital resources (IBRD funds). This is a kind of off-formula adjustment to perceived need.

Obviously the problem of crowding out is potentially most severe when the pool of eligible countries contains some countries that are disproportionately large, poor and under-performing. Each multilateral development organization is in a different position in this regard, because of their different mixes of eligible countries.[56] The Asian Development Bank, although it has only about half the number of members eligible for concessionary borrowing, as does the World Bank/IDA, has a similar spread of countries from very large to very small (although not quite so extreme since India is not eligible for ADF). The Inter-American Development Bank (FSO) has less spread among the populations of its eligible countries – the largest has about 10 times the population of the smallest. The Caribbean Development Bank has traditionally had a modest spread among its eligible countries, with the exception of Guyana. However now that Haiti is a member of the CDB, with a poor population that is as great as all of the other DMCs together, this problem of crowding out may emerge.

On occasion, particularly when resources are being reallocated towards the end of an allocation period from countries that have not used their allocation to countries that have unmet demand for funds, a country's additional allocation may in effect be capped – that is, fixed at a certain amount that reflects demand rather than the allocation formula. The Caribbean Development Bank does this. The Inter-American Development Bank does not, but rather reallocates unused funds by formula among the countries with additional demand.

Finally, a cap at a lower level than the formula would suggest may be a preliminary to the country graduating and becoming ineligible. This is sometimes a compromise position when, according to rules, a country should have graduated already but whose relative success in increasing a performance measure, say per-capita income, is regarded as fragile.

Allocation caps are in general a response to the necessity of allocating insufficient resources among very different countries. They are an exception to the formula-based approach to allocation.

4.4 Minimum Allocations

GEF has a minimum allocation for each country of $1 million. It applies to all member countries, both those with an individual allocation and the larger number of small countries that are grouped for allocation purposes. The status of this minimum allocation was unclear. If it were simply an upper limit to the grants to each country then it was redundant because a higher upper limit was mandated by the conditions of the group. That is, all countries in the group had an upper limit defined by the highest indicative allocation of any country in the group. On the other hand the $1 million was not meant to be an entitlement either. In sum it is difficult to know why it was there at all.

Currently GEF has settled on a two-stage process for Group countries. Up to December 2008 all of them can apply for a grant up to $1 million and these applications will be considered individually on their merits. After that date any country in the Group may propose additional grants (up to a total equal to the indicative allocation of the largest member of the Group minus any grant already received by the country). These proposals will be reviewed competitively as a batch.

In other organizations practice is mixed. Four organizations use the concept of a minimum indicative allocation, and four do not. All organizations' members receive some allocation, whether there is a minimum allocation or not, because the scales on which need/potential and performance are based do not go to zero. The exception is the Caribbean Development Bank, whose members are all technically eligible for concessionary funds, but whose most affluent members receive an allocation of zero or close to zero.[57]

Table 4.4: Minimum Indicative Allocations

Organization	Minimum allocation
GEF	Initially $1 million over four years; later modified by a two-step process that included indicative access to $1 million up to a certain date and competitive review of higher proposals after that date.
World Bank (IDA)	SDR 4.5 million over three years
AfDB	SDR 5 million over three years
IFAD	$1 million over three years
AsDB	No minimum indicative allocation
CDB	No minimum indicative allocation
EU ACP	No minimum indicative allocation
IDB	No minimum indicative allocation

The concept of "minimum allocation" is easily misunderstood because it sounds like an entitlement. In all cases it is not meant to be an entitlement but rather meant to be a minimum "indicative" allocation. That is, countries have access to a minimum amount, subject to strategic fit and merit, but may in fact not receive a grant or loan during a particular period.

4.5 Reserves

Most organizations have not maintained a significant portion of their concessionary funds in an unallocated reserve. They have relied instead on other mechanisms to provide flexibility. For example, the fact that allocations are indicative, not guaranteed, provides last resort flexibility. The IDB has been an exception, normally holding a reserve of $100 million to $150 million in the Fund for Special Operations.[58]

Table 4.5: Reserves Practices

Organization	General Reserve	Reserve for emergency response
GEF	No	No
World Bank (IDA)	No	No. (Annual reallocations, however, provide significant "reserve" flexibility.
International Fund for Agricultural Development	No	No
Asian Development Bank	No	No. But softer loan terms in emergency cases provide flexibility.
EU ACP	No	Envelope B. About 20% of total funds.
Inter-American Development Bank	Yes. $100 million	No
African Development Bank	No	No
Caribbean Development Bank	No	Yes. About $10 million per allocation cycle.

A number of multilateral institutions have set aside part of their concessionary resources to be able to respond to unpredictable emergencies. For example, the Caribbean Development Bank set aside part of the Special Development Fund [SDF 5] budget for as a reserve to respond to natural disasters, for major transitions in economic structure, and/or HIV/AIDS[59]. This was subject to reassessment if emergency needs over-whelmed the reserve or at mid-point in the funding cycle. The EU African and Caribbean Program provision for a "B envelope" for emergencies, although the definition of "emergencies", in this case, is quite broad. The Asian Development Bank has an emergency lending policy to cover both natural disasters and post-conflict lending. The Bank takes vulnerability implicitly taken into account in setting aside a separate pool of funds for Pacific DMCs. Its Emergency Assistance Policy also provides for softer loan terms for countries that borrow for emergency purposes, and uses the IDA framework for evaluating post-conflict needs.

4.6 Special Consideration for Post-Conflict and Fragile States

Several organizations provide greater funds, more grants and/or more favorable terms to member countries emerging from civil conflict or war, or that are otherwise considered particularly fragile. In some cases greater grants rather than concessionary loans are off-set by a 'discount' (less dollar volume).

The GEF does not make special provisions for post-conflict or fragile states, although a case might be made that they often pose unique problems and opportunities in regard to biodiversity and climate change.

Table 4.6: Practice in regard to post-conflict and fragile states

Organization	Special Provisions	Duration of Post-Conflict Premiums	Discounts?
GEF	No	N/A	N/A
World Bank (IDA)	Yes	In post-conflict situations, enhanced allocations for 10 years. During the last 6 allocations are reduced to normal. In re-engagement situations enhanced allocations for five years, with a three-year phase down to normal levels.	Grant allocations subject to a 20% discount.
International Fund for Agricultural Development	Yes	Same as IDA	Grant allocations subject to a 5% discount.
Asian Development Bank	Yes	Same as IDA framework.	Grant allocations subject to a 20% discount.
Inter-American Development Bank	No	N/A	No
African Development Bank	Yes	Enhanced allocations for 6 years.	Grant allocations subject to a 20% discount.

Organization	Special Provisions	Duration of Post-Conflict Premiums	Discounts?
Caribbean Development Bank	Yes	Haiti is treated as a special case, partly because its membership of the CDB is recent: and partly because it is a fragile state.	No

Experience with emergency and post-conflict lending and granting has varied. For example, although civil and military conflict has not been the issue in Inter-American Development Bank (FSO and IFF countries) that it has been in other parts of the world. Nevertheless, the question of whether and how to adjust a country's allocation in a crisis situation does arise. In 2003, for example, $50 million of the $100 million FSO reserve was lent to Bolivia, in a situation of political and economic crisis.

In 2001 the World Bank/IDA first published guidelines in regard to allocations to post-conflict countries.[60] These guidelines enabled the Bank to provide higher IDA allocations than the normal formula would allow, for up to three years after re-engagement following a violent conflict. In exceptional cases, this period may be extended for a year or two more. The period is now a standard five years. The exceptional allocations were expected to range from $10-$15 per capita per year, compared with the average allocation of $7.5. However, the Bank noted that this expectation was based on historical experience of post-conflict countries that had relatively small populations. An upper bound was set at $20 per capita per annum for post-conflict countries scoring high on performance and a lower bound set at $4 per capita per annum for those scoring low.

The initial allocation to a post-conflict country is determined by four sets of considerations – prospects for peace, needs, government commitment to sustainable development, and moral hazard concerns. Subsequent allocations during the post-conflict period are determined by scores on policy/institutional criteria similar to those used in ordinary IDA allocations, but with significant adaptations, including a new category of criteria, entitled "security and reconciliation"[61]. The other three clusters of criteria are similar to the standard set but slanted towards expected post-conflict conditions.

Similarly the Caribbean Development Bank's Natural Disaster Strategy and Operational Guidelines[62] were amended in February 2000 to provide flexibility for an early response during the initial phase of recovery when dislocations affecting the poor are greatest. However this facility has not been used significantly. The other MDBs do not generally have formal policies regarding above-norm allocations after natural disasters. However, in practice there are precedents for fixed-period above-norm injections of funds after severe hurricanes.[63]

In general organizations have realized that post-conflict and fragile states pose special problems and opportunities; and special support and incentives might produce global benefits.

4.7 Set-Asides for Special Purposes

Most organizations have set-asides of funds for special purposes. The special purposes have included, for example, regional projects, emergency/disaster response, post-conflict or otherwise fragile states, or high priority public goods such as the control of AIDS, and other specifically targeted areas such as the reduction of extreme poverty or the preservation of endangered species. Funds set-aside are normally unrestricted geographically. The portion of funds set-aside varies from about 5% (for example, IDA allocation for regional projects) to as much as 25% of the total concessionary funds being allocated (for example, CDB set-asides for regional projects and special purposes).

5.0 SOME TECHNICAL TOPICS

5.1 Cash Flow Risk

Several organizations take some cash flow risk by making indicative allocations that sum to more than the total resources available for the period. The assumption is that some countries will not use all of their allocation. For example the first-year share of a country's AfDB allocation can be increased by 50%,; and the AsDB first year allocation can be increased by different amounts depending on country size, up to 175% of total allocation for the smallest countries. The EC Africa Caribbean and Pacific program (Envelope B) provides for premiums on the initial allocation of up to 335%, generally for small countries. The practical risk is in fact small because the allocations, including premiums, are indicative only and subject to various factors including the availability of funds.

5.2 Waivers, Exceptions and Ad Hoc Adjustments

Information on waivers, exceptions and ad hoc adjustments to allocations is difficult to obtain. Nevertheless they seem to contribute substantially to the flexibility of the resource allocation system in some organizations. For example, actual amounts approved by the CDB for some countries, during SDF 5, were twice the formal allocation or greater. In the past World Bank (IDA) practice tended to assume that actual approvals might reasonably vary between plus 20% and minus 20% of the indicative allocation. The World Bank, in all its communications on the PBA system, emphasized that the allocation was indicative, not an entitlement.

5.3 Novel Variables in PBA Formulae

It is interesting to note the use of logarithmic forms of variables (for example, LogPOP by two organizations, IFAD and the EC). The effect of a log transformation is to make a non-linear (exponential) distribution of country sizes closer to linear. This is useful when the organization has many small country members and, in addition, a few relatively very large country members (CDB, for example, with its micro island states; Guyana and Haiti). By moderating the influence of country size, the "log transformation" may help avoid explicit and arbitrary caps on the allocations of the largest countries. GEF has not used logarithmic forms, but it would be possible, for example, to use LogGBI in the same way as other organizations use LogPOP, and for the same purpose.

Another interesting example of taking different performance factors into account is the approach of the European Union's Africa and Caribbean Program (ACP). In this case, country performance is a composite of seven factors, each applied as a separate 'premium' to the basic allocation determined by need.[64]

5.4 Effects of Different Measurement Scales

The variables in the allocation formula are measured on different scales. Some are on a scale of 1 to 6, and some on much broader scales – say, 1 to 100. This has no effect on the allocation outcomes as long as scoring is true to scale, because it is relative scores not absolute scores that determine the allocations among countries. That is, getting 1 out of 5 or 20 out of 100 makes no difference as long as all countries are scored on the same scale - their relative scores will be unchanged and therefore their allocations will be unchanged

However if scoring is not true to scale (say the average score changes from '4 out of 5' to '5 out of 6' when the scale is changed) then there is a problem. The problem is not related to a big scale or a small

scale. It may be related to a scale not being sufficiently fine to capture scores true to scale, as the example earlier in this paragraph shows.

Most organizations, including the GEF, use a 1-6 scale for scoring country performance. There are some small variations. The World Bank allows increments of 0.5 between 2 and 5 [that is, 2.5, 3.5 or 4.5], while the African Development Fund uses only whole-number scores. The Asian Development Fund also uses 0.5 increments, like IDA, but, in addition, follows each score by [+] or [-], or "stable", to indicate changes compared with the previous year. The [+] or [-] has no effect on the average performance score.

Most organizations, including IDA, ADF [and the EU][65], have 'cluster weights' rather than 'individual criterion weights' in their CPIA. The numerical ratings for each factor in a cluster are added and averaged [the number of sub-criteria in a cluster varies in the CPIA]. The average score for the cluster is then multiplied by the cluster weight. The aggregate performance rating is the weighted average of the cluster ratings.[66]

Table 5.4: Policy/Institutional Performance Scores and Definitions

Score*	Definition
1	Highly unsatisfactory for an extended period
2	Highly unsatisfactory
3	Unsatisfactory
4	Satisfactory
5	Good
6	Good for an extended period

* IDA and ADF allow intermediate scores of 2.5, 3.5, and 4.5

In general, IDA's scoring of performance against each the scale for each criterion has become more consistent and precise over the years in two ways – first, by defining which types of "policies and institutions" qualify for high, medium or low scores; and, second, by instituting a system of benchmarks against which performance may be judged. The questionnaires distributed to World Bank staff now give, for each criterion, examples of the types of policies/institutions that would score '2' [unsatisfactory'] or '5' [good]. The Assessment Questionnaires also contain a commentary, and "guideposts". The guideposts can be many things, including statements of good policy/institutional practice, IMF codes of good practice, World Bank checklists, or website addresses for comparative data.[67] Both the ADF and the AfDF have followed IDA practice in this.

Apart from the problem of interaction between measurement scales and variable weights, discussed above, the scales on which country performance is measured have two other weaknesses.

First, the original 1 to 5 scale used by IDA was changed to 1-6 in response to a perceived problem of the scores clustering around a middle value. The 1-6 scale, in increments of 0.5, has no visible middle value. However, it may be that the performances of eligible countries do in fact (in the real world) cluster around a middle value. If so, then there is no point masking this reality by using a scale that prevents its expression. Manipulating the measurement scale to prevent 'mid-point' scores is unfortunate without considering the nature of the phenomenon being measured. It would not be surprising to find that performance is "normally" [bell curve] distributed, for example. Choosing a scale that arbitrarily obscures this reality is bad practice, and creates a greater risk of inaccuracy than the minor problem of some scorers being afraid to award distinctive (high or low) scores.[68]

Second, the 1-6 scale was changed to make "1" mean consistently poor for the past three years and "6" mean consistently bad for the past three years. Of course, this reinstates a middle value (3) in the continuous measurement part of the scale; and, as well, it introduces an element, consistency, that is a

new variable. If consistency is to be rewarded, or in the case of poor performance punished, then it is better done as a separate variable in the formula, not by confusing the performance measurement scale.

In contrast to these complexities, the Caribbean Development Bank uses a simple and balanced scale, as follows: Excellent 5, Above average 4, Average 3, Below average 2, Unsatisfactory 1. Scores are in increments of 0.5. Even so the scale is not as sensitive as it could be. It is preferable to facilitate rather more nuanced judgments about performance, especially if improvements are to be tracked and communicated to the DMC. If the score has to improve a full 0.5 on a 1-5 scale to visibly reflect an improvement then this is perhaps too large a hurdle. It would be better to use a more disaggregated scale that is more sensitive to the modest improvements that may be possible from year to year. For example:

Excellent	80-100
Above average	60-79
Average	40-59
Below average	20-39
Unsatisfactory	0-19

6.0 EVALUATIONS OF PBA SYSTEMS

6.1 Evaluation of the African Development Fund

In 2004 the AfDB Operations Evaluation Department evaluated the African Development Fund Cycles VII, VIII and IX. Among other topics this evaluation considered the effectiveness of the performance-based allocation system.[69] It said: "The introduction of a more formal system incorporating criteria to make allocation decisions is a notable development."

It listed enhancements that had been put in place over the five years 1999 to 2004. These included:

- Fine-tuning the CPIA questionnaire
- Benchmarking country performance ratings
- Introducing a governance premium to differentiate more strongly between good and bad performers
- Increasing the minimum indicative allocation to help small countries
- Providing additional resources to post-conflict countries
- Introducing policy triggers to modify indicative allocations (from low-case scenario resulting in an allocation only 20% of the initial indicative allocation to a high-case scenario resulting in a premium of up to 50% additional to the initial allocation.
- Disclosing more specific information about performance scoring to enrich country dialogue

The main conclusion was that "the PBA framework has become a central programming instrument of the AfDF and it appears to be contributing very substantially to enhanced operational quality and to overall development effectiveness."[70]

Further refinements that the evaluation team recommended be considered in future were:

- Refine the governance criteria
- Improve portfolio performance scoring
- Make "triggers"[71] more specific to stated actions the government can take

- Factor absorptive capacity into the allocation decision
- Increase total financial resources to be allocated[72]

An independent review of the African Development Bank by a high-level independent panel (2007) concluded that the PBA of the Bank is inadequate and should be reviewed. The panel found that "a single standardized PBA system is ill suited to Africa's complexities", with the following concerns:

- by adopting performance indicators designed to be universally applicable, the PBA assumes a common development model that leaves little room for country-owned development strategies or continental diversity
- the assessment of need is too narrow
- much of the assessment is essentially subjective and backward-looking. It measures intermediate policy choices rather than results actually achieved and relies on data of often poor quality.
- the annual allocation cycle introduces an unhealthy and unnecessary degree of uncertainty in planning and management both for the Bank and for borrowers.
- the PBA does not deal adequately with the needs of fragile states and post-conflict countries.
- as an annual, country-based system, the PBA is poorly adapted to allocating resources to regional projects.

6.2 Evaluation of the Asian Development Fund

In 2007 the Asian Development Bank evaluated the Asian Development Fund, Cycles VIII and IX.[73] The evaluation team returned a report skeptical about the PBA system. They noted that the heart of the PBA has been the introduction of a standardized country performance assessment,[74] harmonized with the Country Performance and Institutional Assessment of the World Bank/IDA.

OED questioned what it regarded as an excessive weight given to governance (broad framework) indicators.[75] It said that the policy leverage role of the ADF is important and therefore the adjustments that ADB is making regarding weakly performing countries are positive. Nevertheless the actual working of the PBA is complicated and thereby obscure to governments. The CPA is labor intensive and duplicates in large part the IDA assessment in the same countries. This raises the question of whether it is worth the effort and expense to undertake performance analyses for each country each year. Country economists questioned the various exceptions and set-asides sanctioned within the PBA which reduce the transparency of the system.

It noted that if an ADF replenishment is much smaller or larger, all countries will receive less or more, irrespective of last year's performance, which seems against the logic of reward for long-term improvements in performance. This leads to mixed signals.

The study recommended a simplified CPA, less reliant on contentious governance indicators, saying that this option would preserve the principle to not waste funds in weakly performing countries. It also suggested that the portfolio performance indicator should be revised (as ADB already planed to do). ADB could consider using the World Bank's Country Performance and Institutional Assessment scores to allocate ADF funds to save staff time.

The evaluators suggested that more emphasis on "triggers" should be considered as an option – that is the Bank should focus on the binding constraints to a country's development or the effectiveness of aid, and tie allocations to government commitments to make changes in these constraints.

6.3 Evaluation of the Special Development Fund of the CDB

In 2007 the Caribbean Development Bank evaluated its performance-based allocation system for its Special Development Fund.[76] It found that the Bank had successfully operated its performance-based allocation system through a whole cycle and that the system needed only fine-tuning. The study recommended the following:

Since the World Bank/IDA intended to review and perhaps change its allocation formula during the IDA 15 negotiations in 2007, CDB should wait to see the result before deciding on any changes to its own formula. It recommended that CDB reallocate its SDF (U) resources every two years at a minimum, as was present practice, or annually if circumstances require.

The evaluators recommended that the Chief Economist should no longer have such a dominant role in country performance scoring but, rather, that CDB convene a Country Performance Rating Team once each year to consider, revise if necessary and approve the country performance ratings. The Rating Team should be supported by the country economists and by topic specialists in Projects Department.

The suggested that the Bank is ready to make wider use of the performance scores in policy dialogue but that this should be selective. If, for example, the Bank selected one "country performance criterion" each year for intensive review (including a cross-country comparative study of performance) it would be well prepared to present and explain country rankings on that criterion. The Annual Economic Review would, in the evaluator's opinion, be a good venue for such discussion.

The study recommended that CDB adopt the World Bank/IDA policy and institutional performance questionnaire, while keeping its own criteria weights and applying its own judgment to generate scores. It found that CDB has selected an appropriate weight for the "governance cluster" of performance criteria in the PRES. Nothing additional is needed to emphasize its importance.

It suggested that CDB explore the possibility of joint benchmarking of country performance scores with other multilateral development institutions working in the Caribbean, including the IDB and the World Bank. As well CDB should explore the possibility of an annual discussion with each BMC on its performance ratings, perhaps jointly with other multilateral institutions that now score country performance (including World Bank/IDA, IDB, IFAD, and GEF). To facilitate dialogue, the evaluators recommended that each set of scores (by country and by criterion) be supported by a short written text. This would involve greater disclosure than the World Bank currently undertakes, since, at present, it discloses the scores but not the supporting text.

The evaluators recommended that three things be done to ameliorate the small-portfolio problem in the PORT variable.[77] The evaluators recommended that CDB continue to use the CDB Portfolio Performance Index (rather than the percentage of projects-at-risk) as the basis for its "portfolio performance" variable. They recommended that CDB reduce the weight of PORT in the country performance factor in the allocation formula to 20%. This harmonizes with the World Bank/IDA and seemed a reasonable weight. When the volatility problems of the variable are remedied, CDB might wish to consider a weight of 30% again. At the same time CDB should engage with other MDBs to agree on a consensus weight for "portfolio performance".

The evaluators recommended that CDB should continue to weight its PPI by project size (approved budgets) to avoid small operations being overly influential in the country portfolio performance score. However they also recommended that TA operations (which tend to be small) should be included in the base on which country portfolio performance is calculated. At the same time, they suggested that weighting by approved budget avoids the problem encountered by the IDB that a good (or bad) project

declines in influence on the country average PPI as it gradually disburses its monies. They noted that the focus on the current state of the portfolio (rather than a longer view) can lead to volatility in scores. For instance the failure and closure of a weak project can result in an improved country performance score without anything else happening to the portfolio. Therefore CDB should count the score of a project terminated incomplete in calculating the country's portfolio performance score in that year; and should consider other ways to penalize non-completion or extremely late completion of projects.

The evaluators recommended various changed to variables in the allocation formula to reflect the poverty reduction mandate of the Bank.[78] The third "needs variable" is in the allocation formula was "vulnerability" based on CDB's Vulnerability Index (2002). This index combines vulnerability to natural disasters with vulnerability to economic shocks. The evaluators recommended that CDB continue to use this variable.

Finally they recommended that for special cases of new members that have serious governance problems CDB should give a fixed allocation, as recommended above, and offer to increase that allocation according to performance on negotiated criteria that might resemble the post-conflict allocation criteria used by other multilateral development banks in similarly unique cases.

7.0 Summary Observations

Identifying best practices is a matter of judgment. The following observations are considered opinions based on considerable experience with PBA systems, but are nevertheless to be read as suggestions for discussion.

(A) Simplicity

The PBA operated by the Inter-American Development Bank is by far the simplest. It divides the total funds into three pots of money and allocates each pot according to a single variable – population, income or performance. Priorities are indicated by the amount of money that goes into each pot. For example, 60% of funds is allocated according to country performance alone.[79]

In comparison, GEF chose the relatively complex and opaque multiplicative formula with exponent weights pioneered by the World Bank. An additional and unique complexity results from the GEF RAF having two different allocation formulae for two different focal areas. A third level of operational complexity results from the measurement of the variables in the allocation formula. Most other formulae contain simple variables for which data are easily available (population, GNP per capita, the UN Development Index, etc). The GEF variables are, perhaps unavoidably, complex and challenging to measure.

(B) Responsiveness to Country Performance

The World Bank/IDA increased the exponent weight on performance from 2.0 in IDA 14 to 5.0 in IDA 15, making allocations very sensitive at the margin to small changes in country performance. The result will be greater responsiveness but also greater volatility; and perhaps some unmanageably large allocations to small well-performing countries.

In comparison, GEF allocations, particularly in climate change, are only modestly responsive to country performance. In addition there is a problem inherent in rewarding countries with higher grants in proportion to the emissions of greenhouse gasses (a bad) rather than, for instance, biodiversity (a good).

In summary, although the general format of the allocation formula is the same for climate change and biodiversity the incentives provided to countries in each focal area are different. In climate change, where one might have expected the greatest scope for incentives because there are opportunities for policy interventions to lessen emissions and to improve carbon intensity in the economy, the sensitivity of allocations to performance is weak. In biodiversity, responsiveness to performance is stronger.

GEF might consider giving weight[80] to improvement in GBI (fewer emissions) from period to period.[81]

(C) Incentives for better portfolio performance.

The Caribbean Development Bank has the best practices in regard to "portfolio performance" in its resource allocation formula. It scores all active projects annually against eight OECD/DAC effectiveness criteria. This is inherently a stronger approach than counting problem projects or projects at risk.

The GEF approach is similar to the CDB. GEF's Portfolio Performance Indicator (PPI) measures each country's average performance in environmental projects over the past ten years. It gives equal weight to two things: (a) the average of GEF project ratings contained in the Project Implementation Review, and (b) the average World Bank Independent Evaluation Department rating of environment-related projects. It's limitations at present are that it uses partial measures of portfolio performance and counts performance over a decade, which partly avoids the 'small portfolio' problems that have troubled other PBA systems but also introduces long lags, which dilutes the incentive for improvement because it may take a long time before improvement is reflected in the 10-year data. Portfolio performance ratings need to be reasonably stable while at the same time giving an incentive for improvement. GEF needs to find a way to reconcile the two objectives.[82]

(D) Policy Dialogue on the environmental issues

Other organizations, including the World Bank (IDA), give environmental criteria only a small weight in country performance scores – typically 5% of the CPIA. The Caribbean Development Bank gives the highest weight (10% of the CPIA). GEF should encourage other multilateral development organizations to give greater weight to environmental performance in their resource allocation formulae.

As well, giving incentives practical effect depends on the member country understanding GEF's view of its environmental performance and also understanding how its performance score could be improved. Therefore it is important that GEF communicate these things well. This requires having a write-up of the country scores that can be shared with the government and having a defensible country performance index in each of its focal areas. At present the GEF relies on the World Bank for country scores on environmental policy and institutional performance. GEF should consider taking a greater role in conducting or commissioning its own country environmental performance index as the basis of its RAF performance score.

Endnotes:

[1] The Inter-American Development Bank uses the term CIPE rather than CPIA, which is IDA terminology.
[2] The "governance factor" comprises the average score on five Criteria in IDA's "public sector management" cluster plus (for IDA) a three-year moving average for the 'procurement flag' of the World Bank's Annual Report on Portfolio Performance
[3] African Development Bank, "Stepping Up to the Future", 2007, Section 5.2.
[4] Both incentive effects are important (that is, effects on 'project performance' and effects on 'policy and institutional performance'); but the longer-term effect on 'policy and institutional performance' is potentially the most important because it works at the scale of practices that affect whole economies rather than at the scale of individual projects and grant portfolios.
[5] Most organizations have gone to considerable lengths to stress that allocations are "indicative" – that is, they are not entitlements and they are not absolute limits on the funds that a country might receive during a certain replenishment period. At one time the World Bank/IDA, for example, considered that a variation of plus or minus 20% from indicative allocations, on average, was a reasonable outcome. However some member countries, in all cases, still tend to think in entitlement terms. Some aspects of PBA systems tend to encourage this. For example, minimum allocations are easily misunderstood to be guaranteed amounts that a country will receive no matter what the circumstances. It may be that this problem is more pronounced in grants-based systems than in loans-based systems.
[6] In all PBA systems, weights are assigned to variables in the allocation formula at three stages. At the highest level, weights are given to "need and potential" (GEF 0.8) and "performance" (GEF 1.0). At the next level, weights are given to various factors within "performance" (that is, separate weights are given to the CPIA scores and to portfolio performance scores). At the next level, weights are given to different aspects of the CPIA (GEF 0.7 weight to scores on environment and 0.3 weight to a broad framework indicator of good governance). All of these different levels of weights are influential in determining the allocation outcome.
[7] The Caribbean Development Bank divides all its borrowing member countries into groups, as do the other multilateral development banks, but no group is entirely ineligible, although Group 1 countries have no formal allocation and can access concessionary funds only in very limited circumstances.
[8] While a larger exponent indicates that the variable has greater weight, all things being equal, that is an oversimplification because all other things are seldom equal. The effective weight of each variable in a multiplicative formula is, in fact, difficult to calculate. It depends on the number of variables, the exponent on each, and the nature and variability of the underlying data. Technically, in this geometric type of formula the effective weights (response elasticities) vary from one country to another depending on its initial level of allocation. That is, the elasticity of a country's allocation share with respect to a change in a certain variable is equal to the exponent on that variable multiplied by (1 minus the country's initial allocation share). Therefore elasticities are not constant but rather they range from zero to one, depending on initial allocation shares. Countries that have large allocation shares initially will have lower response elasticities.
[9] For half of its funds (until 2007 all of its funds) the IDB, instead of calculating a country score that combines 'need and potential' and 'performance', decides ahead of time how much money it will allocate according to 'need and potential' and how much according to 'performance' and then allocates the two pots of money separately. In fact, IDB allocates 60% of its concessionary funds (Fund for Special Operations, FSO) solely according to member countries' relative scores on a performance index; and 40% depending on scores on an index of 'need and potential'.
[10] Variables: CIPE= Country Institutional and Policy Evaluation (IDB); CPIA= Country Policy and Institutional Assessment; DEBT = Debt service ratio; ES_CPIA= Economic and Social Performance Criteria in CPIA (for ADB); FSO=Fund for Special Operations (IDB); Fund= Size of IFF and FSO Envelope; GOV= Average of the five criteria in the "public sector management cluster" for ADF; average of the six criteria in the Governance and Public Sector Performance for AfDF; average of the five criteria in the public sector management cluster (Cluster D) for IDA; GNPPC = GNP per capita; Log = logarithm; HDI = Human Development Index; PCEF= Post-conflict Enhancement Factor (AfDB);POP = Population; PORT= Portfolio rating; RuralCPIA= Performance rating on policies and institutions for rural development (IFAD); VUL = Country Vulnerability (EU ACP).
[11] $(0.22*FUND)(POP/\sum POP) + (0.18*FUND)(\text{per capitaGNP}^{-1}/\sum \text{per capitaGNP}^{-1}) + (0.6*FUND)(0.7*CIPE + 0.3*PORT/\sum 0.7*CIPE + 0.3*PORT)$
[12] The GBI for Biodiversity is 0.8 x Terrestrial Biodiversity + 0.2 Marine Biodiversity. Terrestrial Biodiversity is defined as 0.55 x represented species + 0.20 x threatened species + 0.15 x represented eco-regions + 0.10 * threatened eco-regions; and Marine Biodiversity is defined as represented marine species. The GBI for Climate change is defined as Baseline GHG emissions x carbon intensity adjustment factor.
[13] The World Bank (IDA) operates a three-year rolling allocation system, with reallocation annually. In the third year of the replenishment period there is provision for a limited amount of additional ad hoc reallocation of funds. Regional Vice-Presidents can request the reallocation of funds from specific low-demand countries to specific high-demand countries, as long as funds flow only from lower-performing countries to higher-performing countries.

[14] The first IFAD iteration produces allocations for all eligible countries; but the allocation to "expected inactive" countries is immediately re-pooled and reallocated by formula. This is approximately how IFAD conducted its 2006 allocation exercise. The key concept was that allocation iterations must be de novo – that is, the re-pooled funds are reallocated using the same performance-based formula as in the original allocation.
[15] Bolivia, Guyana, Haiti, Honduras and Nicaragua. In addition a small amount ($10 million to $20 million) is made available to Caribbean microstates (OECS) through the Caribbean Development Bank.
[16] 0.25% interest rate, collected twice annually, 39 years grace, forty year term.
[17] Ecuador, El Salvador, Suriname, Guatemala and Paraguay.
[18] Loans that are 80% ordinary capital and 20% Fund for Special Operations.
[19] Their indicative funds are determined by the same formula but the terms and conditions for loans and grants are more favorable for Group 3 countries.
[20] GEF. The GEF Resource Allocation Framework. GEF Council Nov. 8-10, 2005. GEF/C.27/Inf.8/Rev.1, Washington DC. October 17, 2005. The RAF Resource Allocation Framework (2005) describes the formation of the two groups as follows: "Step 5. Indicative Allocations to countries and the group. 14. For each focal area, all eligible countries are listed in decreasing order of adjusted allocations. The highest-ranked countries whose cumulative adjusted allocations equal 75 percent of the total resources in the focal area will receive country specific indicative allocations equal to their respective adjusted allocations. 15. The remaining countries will be placed in a group with collective access to the indicative allocations for countries in the group for each focal area. The indicative allocation of the group for each focal area will consist of the resources available for the focal area that are not excluded from the RAF as specified in paragraph 22 and are not allocated to individual countries as specified in paragraph 14. For each focal area, the upper limit on approved projects for any country in the group will be equal to the adjusted allocation of the highest-ranked country in the group.
[21] Each country in Group 2 is limited in the funds for which it can apply for in two ways. First, it cannot apply for more than its standard allocation. Second, there is a limit on the total funds available to Group 2. The Group 2 allocation is constrained in a way that is not true of Group 1. In Group 1 the sum of the individual country allocations is the same as the total allocation to the group. In Group 2, in contrast, the sum of the country indicative allocations is much larger than the total allocation to the Group. All Group 2 countries cannot apply for and receive approval for grants equal to their standard allocation without the total exceeding the limit of the Group 2 allocations. Let us consider the situation of a Group 2 country "Ruritania". It is told that its individual allocation was, say, $700,000, but it can apply for grants up to the limit of the largest indicative allocation on any country in the group, say $2.9 million. However Group 2 could run out of Funds if other countries are quicker to apply and receive approval. In that case Ruritania will have access to less than $2.9 million but how much less will depend on how much money is left in the Group 2 pot at the time. However the minimum that Ruritania is guaranteed access to during the whole replenishment period is $1 million, although, like all allocations, this is not an entitlement. As well Ruritania may access 50% of $2.9 million in the first two years ($1.45 million), or, alternatively, if the other Group 2 countries were to access 50% of their standard indicative allocations amounting to a sum close to 50% of the actual dollars available to Group 2, then Ruritania would be able to access less (subject to a guarantee of 50% of $1 million - $500,000). In short, if Ruritania moves quickly it could get grants up to $1.45 million in the first two years of GEF4 and if it does not it might be limited to $500,000, or something in between. This is rather complex and may give "indicative" allocations a bad name among Group 2 countries, especially those who would prefer an entitlement.
[22] Group 1: Countries in this Group receive individual allocations. This group is defined by the smallest number of countries whose indicative allocations sum to 75% of the funds available for the focal area. Each country in Group 1 received an individual indicative allocation in GEF4, and was guaranteed an individual allocation (although no fixed amount) through the whole period. That is, its indicative allocation might change after mid-point reallocations but it would remain an individual allocation. Any country that is in Group 1 for the first half for GEF4 stays in that group for the whole of GEF4.
[23] Group 2: Countries in this Group each receive an allocation in principle equal to the largest allocation any would receive individually. In GEF4 about two-thirds of all countries were in Group 2 (71% of countries in the climate change focal area; and 62% in the biodiversity focal area). The standard identical allocation to each Group 2 country is equal to the highest individual allocation[23] that any country in this group would otherwise have received. Only the highest individual allocation of any country in Group 2 is made public. The initial individual allocations that are the basis for the division into Groups 1 and 2 are not made public.
[24] The RAF document is ambiguous in some important respects in this regard. Specifically the RAF document requires two incompatible calculations. First, in paragraphs 9 to 15, it says that exclusions (essentially the 10% for global and regional and small grants) are made as the first step in calculating Group 2 allocations. That is all countries bear the cost of these exclusions. After exclusions, the remaining 90% of funds (the adjusted allocations) is split 75/25. Therefore Group 2 receives 25% of 90% - that is 22.5% of total funds in each focal area. However, in contradiction, paragraph 16 says that three items cannot add up to more than 25% of total funds. Those three items are: (1) The Group adjusted allocations (22.5% in the example above). (2)

Exclusions (10%), and (3) Targeted supplements (defined as the difference between the total unadjusted allocation for all countries under $1 million and the total adjusted allocations for these countries – that is $1 million each). Clearly if all three items above must sum to less than 25% of total funds in the focal area, then something has to give. If what gives is the Group 2 allocation, dropping from 22.5% to something less than 15%, and therefore bearing the full weight of exclusions and targeted supplements, then that is not reasonable if the grouping is meant to benefit rather than hinder smaller countries. If effect they are bearing the whole burden of exclusions and targeted supplements. At a minimum one would expect the larger countries to bear their fair share of the costs of exclusions for regional and global projects, and for small grants.

[25] A regional project must (1) have at least three countries participating; (2) provide evidence of cross-border benefits; (3) have country and regional ownership; (4) be coherent with the regional strategy; and (5) have potential to contribute to policy harmonization.

[26] World Bank/IDA, Resource Mobilization Department, "Pilot Program for Regional Projects", October 2003. regional projects should necessarily involve three or more participating countries (that is, the project should not make sense with fewer), and benefits should spill across borders (there should be important externalities). There should be clear evidence of country and regional ownership and commitment (perhaps a regional agency formed and owned by participating countries). There should be a platform for a high level of policy harmonization between countries, and a well-developed and broadly supported regional strategy relevant to the project.

[27] World Bank/IDA "Additional IDA Resources: Thirteenth Replenishment, IDA/SecM2002-0488", September 17, 2002.

[28] Quoted in IDA, "Pilot Program for Regional Projects", October 2003, p.5 Footnote 7

[29] World Bank/IDA, Resource Mobilization Department, "Pilot Program for Regional Projects", October 2003, para. 17

[30] Consider a country that has a large population, a low per capita income and poor performance. This country will receive a large part of the needs-determined pot and a small part of the performance-determined pot. If it improves its performance somewhat, relative to the other eligible countries, then it will get a little more from the performance-determined pot, but that might not make much difference to its overall allocation. Most of its allocation will still come from the 'needs pot'. Therefore improving performance might look less rewarding to such a country than it might to a country in the opposite position (small population, high per capita income). This outcome is not ideal. One would like an allocation formula that provides an effective incentive for improved performance of the first type of country - many poor people and poorly performing.

[31] To illustrate, the population variable (POP) multiplied by per capita income gives a composite factor that, while not an excellent measure of poverty, is not bad. The joint weight of the two variables may reflect country need reasonably well. At least it makes sense to think about their joint weight in regard to Bank objectives and priorities. In contrast, emphasizing the separate weights of POP and GNPPC makes less intuitive sense. Why would gross population (POP) be used alone to allocate 22% of the total funds available? There is no particular reason.

[32] The EDF/ACP also incorporates vulnerability considerations into its allocation, but does it by adding or subtracting a premium after its basic allocation formula has been applied. This is done in two stages, with "A" and "B" resource envelopes. The "A" envelope is the larger (routine concessionary lending). The "B" envelope is earmarked for emergency lending (assuming vulnerable countries will have more emergencies). In envelope A the formula-derived allocation may be increased by premiums determined by three factors – income level -20% to +20%; land-locked states and island states +5% and +10%; and post-conflict reconstruction situations +5%. (Total possible adjustment to an Envelope A allocation is therefore -20% to +35%.) Allocations from Envelope B are also subject to adjustment by various premiums to reflect vulnerability factors – first an adjustment determined by the OECD DAC economic vulnerability index (EVI>55 results in +20% of envelope A; EVI > 45 results in +15%; EVI > 40 +10%; EVI < 40 +5%. Envelope B allocations are also adjusted by the "predictability ratio", which is the ratio of stabilization to ordinary commitments in the past (Ratio>5 +300% of envelope A; Ratio>1.6 +100%; Ratio>0.5 +30%; Ratio>0.25 +15%; Ratio >0.10 +5%; Ratio <0.10 no premium on the allocation. The third premium on Envelope B is for highly indebted poor countries that are preparing Poverty Reduction Strategy Papers (10% of Envelope A). The fourth premium on Envelope B is vulnerability to natural disasters and conflicts based on the % population affected (Global Vulnerability Index >5, 5% of Envelope A; GVR > 1, 2.5% of Envelope A; GVR < 1 no premium. The total possible premiums on Envelope B range therefore from 5% to 335%.

[33] GEF uses the country score against one of the 16 criteria in the IDA CPIA. This criterion is called "Policies and Institutions for Environmental Sustainability". The score is based on an Environmental Checklist Spreadsheet. The measure is called the Country Environmental Policy and Institutional Assessment Indicator (CEPIA). It is based on structured and internally reviewed assessments by knowledgeable World Bank staff of country performance in six policy areas (air pollution; water pollution; solid and hazardous waste; ecosystem conservation and biodiversity protection; marine and coastal resources; and freshwater resources and commercial natural resources).

[34] GEF assesses the quality of public sector management is through the Broad Framework Indicator (BFI), which carries a weight of 20 percent in the GPI. It is based on the average value of the country scores on five criteria in the "Public Sector Management and Institutions" cluster in the World Bank IDA CPIA: property rights and rule-based governance; quality of budgetary and

financial management; efficiency of revenue mobilization; quality of public administration; and transparency, accountability, and corruption in the public sector.

[35] For example, prior to 2003, IDA and the AfDF[35] gave extra weight to the high scorers on the CPIA in an effort to distinguish more clearly between the governments that were performing well that those that were not. In the IDA formula, if the country performance rating, for example, was above 3.0, then its influence was enhanced by an increase in its exponent from 1.75 to 2.0. This implied a substantial enhancement. To see the effect, consider a country whose performance rating increases from 3.0 to 3.5. Consequently, the performance factor in the allocation formula increases from $3.0^{1.75}$ to 3.5^{2} – that is, from 6.83 to 12.25, increasing its allocation by approximately 80%, other things being equal. This resulted in a large undesirable discontinuity in the performance score/dollar allocation curve.

[36] The allocation formula was then $POP \times GNP_{pc}^{-0.125} \times [(0.8CPIA = 0.2PORT) \times (GOV/3.5)^{1.5}]^{2.0}$

[37] The reason why the AsDB formula is so complex is that it was adjusted in 2005 to avoid the double counting of "governance" that was then extant in the World Bank formula, while at the same time harmonizing its outcomes with those that would have been produced by the World Bank formula itself. Essentially, the CPIA scores were divided into two – one to reflect the "governance cluster of criteria" only, and the other to reflect performance on the rest of the CPIA criteria.

[38] IDB, GN-1856-31 provides some hypothetical simulations with three different weights for need and performance. In this document the weight for portfolio performance was assumed to be 40% and for policy-and-institutional performance 60%. The Programming Committee of the Board later altered these weights to 30% and 70% respectively.

[39] The amount of weight given to the performance variable changes frequently even within a single organization. For example, the traditional World Bank (IDA) allocation formula had an exponent of 2.0 on the performance variable. As one can see from Table 4.4.1 above, the most common exponent on the performance variable is still 2.0 (AsDB, CDB and IFAD). However the World Bank first added a separate "governance" variable, double counting part of the CPIA, and then, during the recent IDA 15 negotiations, dropped the separate governance variable, split the CPIA performance variable into two, and raised the exponent on the performance variable to 5.0. We are told that these changes, with the selection of new weights for all three components[39] of the performance variable, and the simultaneous increase of the exponent on the performance variable from 2.0 to 5.0, did not have a significant effect on the initial IDA 15 allocations. That is, the weights were selected to keep the allocations much as they would have been under the old formula. This may have been only partly successful and, anyway, there is more than one combination of weights that will achieve this result. The important point is that the sensitivity of IDA allocations to changes in performance in future has been substantially increased. The GEF RAF, with an exponent of 1.0 on the performance variable, is apparently less sensitive to changes in performance than is the case with IDA.

[40] Endnote Table: (Climate Change) quintile shares of funds as the weight of GBI increases

BI Quintiles	The GBI Exponent							
	0.80	0.88	0.97	1.06	1.17	1.29	1.42	1.56
1	76%	78%	80%	82%	84%	85%	85%	85%
2	11%	9%	8%	7%	6%	5%	4%	4%
3	6%	5%	4%	4%	4%	4%	4%	4%
4	4%	4%	4%	4%	4%	4%	4%	4%
5	3%	3%	3%	3%	3%	3%	3%	3%
Total:	100%	100%	100%	100%	100%	100%	100%	100%
RCC	23.5	24.3	25.0	25.6	26.0	26.2	26.4	26.5

[41] Endnote Table: (Climate Change) Quintile shares of funds as the weight of GPI increases from 1.0 to 1.95

GPI Quintiles	The GPI Exponent							
	GBI-GPI (0.8-1.00)	GBI-GPI (0.8-1.10)	GBI-GPI (0.8-1.21)	GBI-GPI (0.8-1.33)	GBI-GPI (0.8-1.46)	GBI-GPI (0.8-1.61)	GBI-GPI (0.8-1.77)	GBI-GPI (0.8-1.95)
1	44%	44%	45%	45%	46%	46%	47%	48%
2	21%	21%	21%	21%	21%	21%	20%	20%
3	22%	22%	22%	21%	21%	21%	20%	20%

4	9%	9%	9%	9%	9%	8%	8%	8%
5	4%	4%	4%	4%	4%	4%	4%	4%
Total:	100%	100%	100%	100%	100%	100%	100%	100%
RCC	11.2	11.4	11.7	11.9	12.2	12.5	12.9	13.2

[42] Endnote Table: (Climate Change) Quintile shares of funds as the weight of GPI increases from 1.0 to 5.0

GPI Quintile	GBI-GPI (0.8-1)	GBI-GPI (0.8-2)	GBI-GPI (0.8-3)	GBI-GPI (0.8-4)	GBI-GPI (0.8-5)
1	44%	48%	53%	58%	62%
2	21%	20%	19%	18%	16%
3	22%	20%	18%	16%	13%
4	9%	8%	7%	5%	5%
5	4%	4%	4%	4%	3%
Total	100%	100%	100%	100%	100%
RCC	10.6	12.6	14.3	15.8	18.1

[43] Endnote Table: (Biodiversity) Quintile shares of funds as the weight of GBI increases

GBI Quintiles	The GBI Exponent							
	0.80	0.88	0.97	1.06	1.17	1.29	1.42	1.56
1	67%	71%	74%	77%	80%	82%	84%	85%
2	16%	15%	13%	11%	9%	8%	6%	5%
3	8%	7%	6%	5%	4%	4%	3%	3%
4	5%	4%	4%	3%	3%	3%	3%	3%
5	3%	3%	3%	3%	3%	3%	3%	3%
Total:	100%	100%	100%	100%	100%	100%	100%	100%
RCC	20.1	21.2	22.3	23.2	23.9	24.6	25.1	25.5

[44] Endnote Table: (Biodiversity) Quintile shares of funds as the weight of GPI increases from 1.0 to 1.95

GPI Quintiles	The GPI Exponent							
	1.00	1.10	1.21	1.33	1.46	1.61	1.77	1.95
1	33%	33%	34%	35%	35%	36%	37%	38%
2	27%	27%	28%	28%	28%	28%	28%	28%
3	17%	17%	17%	17%	17%	16%	16%	16%
4	11%	10%	10%	10%	10%	10%	9%	9%
5	12%	12%	11%	11%	11%	10%	10%	9%
Total:	100%	100%	100%	100%	100%	100%	100%	100%
RC	2.7	2.8	3.0	3.1	3.3	3.5	3.8	4.0

[45] Endnote Table: (Biodiversity) Quintile shares of funds as the weight of GPI increases from 1.0 to 5.0

GPI Quintile	GBI-GPI (0.8-1.0)	GBI-GPI (0.8-2)	GBI-GPI (0.8-3.0)	GBI-GPI (0.8-4.0)	GBI-GPI (0.8-5)

1	33%	38%	43%	48%	52%
2	27%	28%	27%	27%	25%
3	17%	16%	15%	13%	12%
4	11%	9%	8%	7%	6%
5	12%	9%	7%	6%	5%
Total	100%	100%	100%	100%	100%
CC	2.7	4.1	6.0	8.2	10.7

[46] See CDB Staff Working Paper, T. Crowards, Index of Inherent Economic Vulnerability for Developing Countries, CDB Staff Working Paper No. 4/00. February 2000.
[47] Atkins, Mazzi and Easter, A. *Commonwealth Vulnerability Index for Developing Countries: The Position of Small States, Commonwealth Secretariat*, January 2000.
[48] Asian Development Bank, "Policy on Performance-Based Allocation for Asian Development Fund Resources, February 2001, Section 4, p. 11.
[49] Ibid, Section 38.
[50] "Expected values" are based on historical volatility. More simply put, if a country was historically subject to sudden drops in annual GNPPC averaging 30%, and if this happened approximately every ten years, then GNPPC would be adjusted by 0.1*0.3 – that is GNPPC would be decreased by 0.03 or 3%.
[51] An example of how a variable can be adjusted for vulnerability is as follows: INC (new 'national income' variable) = ϕGNPpc (at purchasing power parity) + η(standardized %GNPpc earned by poorest quartile) $^{-1}$ + (1- ϕ-η)(standardized GNPpc volatility)
[52] Also there are inevitably lags between policy/institutional reform, economic and social performance, and results data. Therefore, it is sometimes argued, results data might not reflect current realities as well as knowledgeable professional judgement can. However these arguments have been overstated. It is not unreasonable to judge a government's performance against results (progress on the Millennium Development Goals, for example) although everyone and every country is subject to unpredictable exogenous shocks.
[53] AsDB practice in ADF 8 provides an example. After a country's ADF allocation was set for the coming year, the country director discussed it with the DMC government. One objective is to agree with the government on policy and institutional improvements to be made during the coming year. If those improvements are in fact made, the allocation for the following year may be increased by up to 20% or, conversely, if the situation deteriorates significantly, decreased by the same percentage. The increment applies only to a single year.
[54] The ADF, for example, experienced actual increments due to the triggers that were minor during 2001-2002 and 2002-2003, the first two years of the new system. In 2002, 15 of 24 eligible countries were assessed as base-case (no trigger increments, positive or negative). Six countries were given a positive trigger-based increment, averaging 10%. Two countries lost 10% of their allocation.
[55] World Bank/IDA, 'IDA's Performance-Based Allocation System: Current and Emerging Issues', A Paper for the IDA Deputies, October 2003, Section V, Paras 16-17.
[56] Groups of countries may have their allocation fixed as well. The most prominent case is the Asian Development Bank fixing the allocation of the Pacific DMCs at $50 million per year. In effect these countries compete only among themselves for ADF concessionary funds. The Inter-American Development Bank, because for historical reasons it has two separate funds for the poorest countries and for blend countries, has to some extent avoided the crowding out problem. The blend countries, no matter how large, cannot crowd out any FSO country because they compete for funds separately.
[57] The relatively affluent Group 1 countries almost never access concessionary funds at the CDB. However they are technically eligible to access funds for special purposes up to a limit equal to the monies that the government has itself contributed to the Special Development Fund.
[58] In the initial performance-based allocation (2002) this reserve was created from funds left over from the previous period. One of the main purposes is to be able to respond to natural emergencies within the scope of the Emergency Reconstruction Facility.
[59] In the Caribbean, HIV/AIDS is fast taking on the dimensions of a major disaster, and flexibility in programming for this purpose was seen as a valuable adjunct to SDF 5.
[60] World Bank IDA, Technical Paper, "Adapting IDA's Performance-Based Allocations to Post-Conflict Countries", May 2001.
[61] "Security and Reconciliation" includes public security, reconciliation, and demobilization and disarmament.
[62] CDB, Natural Disaster Strategy and Operational Guidelines, April 1998.
[63] For example, IDA after Hurricane Mitch [Nicaragua and Honduras], and Bangladesh.
[64] The European Union (EU-ACP) 'Country Performance' Index provides a premium of -20% to +20% depending on absorptive capacity; -10% for armed conflict; +10% for a peace dividend; -5% to +5% depending on political performance; -10% to +10% for

institutional accountability; -20% to +35% for macroeconomic performance; and -15% to +15% for performance in the social sectors. Overall the maximum possible premiums range from -80% to +95%. The "premium" is the percentage by which the initial population-based allocation is adjusted for performance.

[65] "Unlike the World Bank, EU assessments of country performance will be based on trend, and not levels. Finally, scoring will be done for the baskets of categories but not the individual items within the baskets." DFID "Aligning Aid Strategies to Performance in Low Income Countries: Roundtable Discussion", London, March 3-4 1999.

[66] Asian Development Bank, "Performance-Based Allocation of ADF Resources", March 2000, Appendix 2, pages 1-2.

[67] For example, the text and attachments to the "IDA Country Performance Rating Process: Annual Report 1999", International Development Association, February 2000.

[68] From 1977 to 1998, IDA used a 1 to 5 scale for scoring policy/institutional performance. There had been some concern that the tendency to give "middle" scores might reflect fence-sitting rather than genuine judgments, so the scale was changed to 1-6 to have no clear mid-point and therefore to prevent middle scores. However this new scale really ran from 1.5 to 5.5, since "1" and "6" were not part of the scale proper but rather were used to indicate that a very low performance or a very high performance, respectively, had lasted for "an extended period". As well, IDA allowed scoring in increments of 0.5 on the new scale. Therefore the scale was, in effect, the following: 2.0, 2.5, 3.0, 3.5, 4.0, 4.5, and 5.0.

[69] African Development Bank Group, Stepping up to the Future: An Independent Evaluation of African Development Fund VII, VIII and IX, Chapter 5.2, p. 90 ff.

[70] Ibid, p.91

[71] See Section – of this paper for a short discussion of "triggers".

[72] The evaluation report noted that the average allocation per country was about UA 57 million over three years, or UA 19 million per year.

[73] ADB, Operation Evaluation Department, "Special Report on ADF VIII and IX Operations", December 2007.

[74] The CPA consists of 11 policy and institutional indicators, which get 35% of the weight in the total country performance rating; 5 governance indicators, with 50% of the weight; and 1 portfolio performance indicator, with 15% of the weight. The 11 policy and institutional indicators are (i) macroeconomic management, (ii) fiscal policy, (iii) debt policy, (iv) trade, (v) financial sector, (vi) business regulatory environment, (vii) gender equality, (viii) equity of public resource use, (ix) building human resources, (x) social protection and labor, and (xi) policies and institutions for environmental sustainability. The five governance indicators are (i) property rights and rule-based governance; (ii) quality of budgetary and financial management; (iii) efficiency of revenue mobilization; (iv) quality of public administration; and (v) transparency, accountability, and corruption in the public sector. OED stated that it is clear that although only the second category is labelled as "governance," it is also embedded in the first.

[75] It said that good governance undoubtedly improves development effectiveness; but there is little statistical evidence that aid effectiveness or economic growth are caused by the governance indicators used. It noted that a recent report by the Development Center of Organization for Economic Cooperation and Development concludes that even the most carefully constructed governance indicators (i) lack transparency and comparability over time, (ii) suffer from selection bias, (iii) should not be used to compare governance across countries, and (iv) do not identify how to improve governance.

[76] Caribbean Development Bank, Review of the Special Development Fund (Unified) Resource Allocation System and the Management Response Thereto. October 10, 2007. SDF 6/3 SM-2.

[77] (1) CDB should extend its Portfolio Performance Index to include all operations, including technical assistance over a certain size; (2) the country portfolio performance score should be averaged over all project scores for the previous three years, rather than only current projects; and (3) where a country still has such a small portfolio that CDB judges that its portfolio performance score is not a reliable measure of its performance, the evaluators recommended that portfolio performance be given zero weight in the calculation of these countries' allocations (that is, country performance would be judged solely by policy and institutional performance.)

[78] They recommended that CDB study three possibilities in regard to the "poverty" variables in the allocation formula: (1) Replace the population and per capita income variables with the logarithm of the population earning less than the poverty threshold. This would involve changing the weights of variables in the allocation formula, since the variables themselves would change. (2) Replace only the population variable with the population earning less than the poverty threshold. Or (3) make replacements as in (1) or (2) with extra weight for the level of the indigent population.

[79] However in 2007, having operated the simple model described since 2002, IDB compromised and now allocates 50% of its FSO funds according to a World Bank type formula and 50% according to its own traditional approach.

[80] One way of doing this would be to add a variable "change in emissions". For example:
Country score = $GBI^{0.8} \times \Delta GBI^{-2.0} \times GPI^{1.0}$

[81] Other organizations do not have the same scope for improving their incentive effects because, unlike $GBI_{climate\ change}$, their needs/performance variables (POP, GNPpc) are value-neutral and not amenable to policy intervention.

[82] For example two ways in which the GEF approach to the portfolio performance variable might be improved are as follows: (1) Give more weight to PPI. If the weight of PPI were increased to 20%, while keeping the weight of the Broad Framework Indicator[82] constant, the performance factor in the allocation formula would become: GPI = 0.2 PPI + 0.6 CEPIA + 0.2 BFI (2) Divide PPI into two variables, one being the same as the existing variable and one being a measure of the quality of proposals during the previous two years.[82] For example, portfolio performance could be assessed as follows: 0.5 $PPI_{longterm}$ + 0.5 $PPI_{recentquality.}$ This would provide a stronger incentive by rewarding recent good performance. In time there will be enough GEF/EO terminal evaluations to play a role in the measurement of PPI.